TRADE FALLACIES

A CRITICISM OF EXISTING METHODS AND SUGGESTIONS FOR A REFORM TOWARDS NATIONAL PROSPERITY

By

ARTHUR KITSON

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WITH A PREFACE BY

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THE MONEY PROBLEM.

By Arthur Kitson.

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"Here is a book which disturbs classifications, which is unorthodox, which sets aside some very widely-received opinions as of little worth, and which presents its own side of certain vital questions with a persistency and logical force from which it is hard for an unprejudiced reader to escape. . . . The end and aim of Mr. Kitson's whole argument is to build up a theory of money upon the lines of a purely mathematical induction. He follows Prof. Jevons in the endeavour to show that all the terms with which Political Economy deals involve the consideration of QUANTITIES. But he diverges from Jevons at the point where the latter becomes illogical; for indeed it is illogical to define value as a 'ratio of exchange,' and then to talk about a 'standard unit of value.' It is manifest that we cannot have a 'standard unit' of a 'ratio.' The notion that such a thing is possible is responsible for the theory that gold and silver can be at once a standard of value and a medium of exchange. When economists get rid of that theory, the community will get rid of panics—not before. 'Values are ideal creations, and can only be properly expressed in terms of the ideal—numbers.' Such is Mr. Kitson's remarkable announcement, and it is one which entitles him to a front rank in Economic discussion. His volume will be pooh-poohed by the orthodox philosophers, and all the fogies will hold up their hands in horror. But Mr. Kitson has got hold of the truth, and his theory cannot be permanently subverted. . . . He has only to wait until education shall bring men up to his own level of thought, and so make it possible to conform practice to theory."—Extract from Review of American Edition by the *Evening Bulletin*, Philadelphia.

"I can say with much pleasure that the presentation of Political Economy in the first few chapters is masterly. It is the best Economic book, the fullest, deepest, and truest I have ever seen."—ROBERT BLATCHFORD, Editor of *Clarion*.

"Jevons and others have pointed out the theoretic advantage of founding credit-money on a basis of general commodities. But Mr. Kitson has certainly given a very able exposition of what we may term the theoretic practicability of such a system. His principles are thus summarised (p. 181): *First*, Bank-notes should be issued against wealth and not against debt; *Second*, Banks should not undertake obligations which they cannot always perform; *Third*, Banks should be established and operated for the convenience and assistance of commerce, not for enriching bankers and shareholders.' . . . The most interesting part of Mr. Kitson's argument is his insistence that money has by right no other function than that of exchange. You may insure your instruments of exchange in any way you like, but that insurance is not money. A currency based on commodities is, he urges, the only sound sufficient currency; its free issue would break the power of money-brokers and bankers and would secure a community against injurious fluctuations of value due to excesses or shortages of gold or any other artificially selected basis. The dangers of our existing unregulated credit systems are, however, very real, and Mr. Kitson is correct in attributing panics in large measure to the narrowness of the gold basis."—Extract from Review by *Westminster Gazette*, London.

"I venture to assert that your book was far easier reading for me than most economists. The fact is, my own mind has been marching along your own line of thought regarding the economics of money for four years, and the service of your book lay mainly in enabling me to advance along a smooth highway instead of cutting my way through a jungle. I have come to the conclusion that money is a common denominator of value, expresses ratios instead of measuring utility, and needed no material base. I have not, however, been able to carry out that principle across the entire field of money doctrine and reshape the doctrine of all the special branches in accordance with it. This you have been able to do, and in thus making the science of money fairly complete and self-consistent from the outset you have, it seems to me, established a claim to recognition much greater than others (like myself) who have caught a glimmer or detected the bottom principle, but who have not had the analytic power to reorganize their entire body of doctrine and make it a self-consistent whole. Your illustrations, also, are new and extremely helpful. I confess your treatment of Gresham's law was an 'eye-opener' to me."—PROFESSOR E. A. ROSS, Leland, Stanford University, California.

PROFESSOR JOHN KELLY, Ph.D. (of Pittsfield, Mass., U.S.A.), writes concerning this book: "I congratulate you upon having written the best work on Currency in the English—if not in any—language."

An Open Letter to the Right Hon. David Lloyd-George, Chancellor of the Exchequer, on the Cause of Strikes.

(By Arthur Kitson, President of the B. & C. Reform League.)

The Daily Herald, of London, of July 23, 1912, says:—

BANK MONOPOLY AND THE GREAT UNREST.

We have endeavoured more than once to present and to trace the intimate connexion between our present bank monopoly system and the great unrest. As a cardinal cause of existing evils and anomalies and of the well-founded industrial insurrection in our midst, it has been no easy matter to make this clear, in view of the complex and confusing side issues which party warfare so constantly conjures up. It is all the more pleasing to us, then, in face of the difficulties, to have lighted upon a document which serves to confirm, in a most remarkable degree and with no uncertain voice, all our strictures, even the most outspoken and apparently daring, upon this all-vital question to the workers.

A Merciless Indictment.

The document we allude to, which has come into our hands since writing the foregoing articles, is an "Open Letter to the Right Hon. David Lloyd George, Chancellor of the Exchequer, on the causes of Strikes and Bank Failures." It is written by one who is manifestly a master of his subject, and by one, moreover, who possesses that rare quality nowadays of an unflinching moral courage. His indictment of our entirely irrational system is as clear as it is uncompromising, and his remedy in the direction of reform is, save in one important point, the same as our own.

A Personal Experience.

He opens up his impeachment with the story of an illuminating experience, and one, since it embodies the impressions of a non-Briton, every citizen of this kingdom in reading it should take to heart. The incident very appropriately took place on the terrace of the House of Commons. The author of the book referred to, Mr. Arthur Kitson, found himself among a group of public men discussing the causes of present upheavals throughout the labour world. The company, representing a variety of views, declared each his own remedy one after the other in reply to the question propounded as to what reform our nation was in most need. One said, "Tariff Reform," another "Franchise Reform," another "Female Suffrage," another "the Single Tax," another "Right to Work," while yet another declared in favour of "Home Rule"! The question was then put to the distinguished stranger, a well-known American writer, and his remarks were "so unusual, and created so much astonishment, that one of the group carefully noted his remarks in shorthand," and these we welcome and gladly reproduce as Mr. Kitson prints them. . . .

The Pestilential Blight.

Mr. Arthur Kitson's little book is remarkable in many ways. In his researches into the causes of industrial unrest he has evidently delved deeply into masses of authorities. He recognizes fully, as we do, the vitiated system of bank monopoly which hangs over our commerce, our trade, our industry, like a pestilential blight.

The difficulties and dangers created by the fatal characters, insecurity of our banks under that abiding and extending despotism, the consequent trade fluctuations, the impossibility of our bankers to keep pace with the forward march of our industries, omnipotence of financiers and the ignorance of legislators—all these points, on which we ourselves have so carefully dwelt, come under the lash of his unsparing censure.

He is obviously, like ourselves, bent on bringing about the great Bank Reform. He sees clearly how these mighty impediments, set up in the past by the famous Whig Syndicate and maintained to-day by the Bank of England, are not only spreading ruin among the small producers, traders and workers, but imperilling England's future among the nations."

PREFACE

As I write, the revolution in Russia is the topic on every one's tongue. By the great majority in this country, the end of the Romanoff despotism has been regarded as sudden and surprising; it had endured for so many centuries that it appeared impossible it could be finished in the inside of a week. But the few who had studied attentively Russian political and social life are aware the abdication was only the final deed in a course of action which had extended over two generations and more, and for which much blood had been shed, many tears had flowed and sacrifice of life and liberty had been willingly offered up. A revolution are the short birth-pangs of a new era; but the heavy weariness and pain of gestation has lasted previously for a long period of time. Students of Kipling will remember that beautiful poem in his *History of England* entitled "The Dawn Wind." The last verse, so prophetic of these times, may be quoted here:

> So when the world is asleep, and there seems no hope of her waking
> Out of some long bad dream that makes her mutter and moan,
> Suddenly, all men arise to the noise of fetters breaking,
> And every one smiles at his neighbour, and tells him his soul is his own.

But it may be asked, what has this to do with

Mr. Arthur Kitson's essays on Trade Fallacies? Just this. There are other despotisms than autocracy; trade and currency have their own forms of absolutism which fetter freedom and compel adherence to false ideals. Whether we like it or not, we have to recognize these are the days that precede revolution for all the peoples. Mankind stretches out its hands in the blinding mists of blood and tears, and cries aloud to be led up to nobler heights through the roar and fog of battle. Not yet can we gauge the forces that have been freed in this world struggle. But we hear the word "reconstruction" on every lip, though seldom is it recognized that there can be no sound reconstruction without demolition. The site has to be cleared of the rubble that has accumulated during the years of peace; new foundations have to be dug, and more deeply, if the future social fabric is to be fairer and stronger than the one whose place it is to take.

Land and Water under the present proprietary recognized this essential truth, and without committing itself definitely to the acceptance of the actual opinions expressed, has willingly opened its columns to those who can put forth bold views lucidly and sincerely on subjects with which they are familiar. I have before me a letter from a most cultured essayist, a student of human nature. He writes: "One of the great lessons of the war, I think, is that it enables us for the time being to get away from our customary prepossessions, and take a calm view of them. But this involves a good deal of what Sidney Smith called 'speaking disrespectfully

of the equator '—and that is a thing some people cannot stand. That *Land and Water* can stand it is a good augury, and I do not think it will be found a misfortune."

Mr. Kitson never troubles himself about the susceptibilities of the Equator; those who are satisfied that British currency and banking, and her trading and industrial conditions are all that they should be, will be well advised to forswear this volume, for their prepossessions will be shocked. But when as Editor of *Land and Water* it fell to my lot to decide whether these articles should be printed in its columns, two outstanding facts presented themselves: (1st) Mr. Kitson's views closely coincided with those I had heard expressed by every British trader of enterprise and originality; (2nd) the opinions were set out in such clear and straightforward language, that a subject, usually regarded as too technical and dull for a journal that caters for general readers, became not only comprehensible but always interesting and often fascinating. Since the articles were published, events have moved rapidly. No one now disputes that British banking methods have to be materially altered in so far as external trade is concerned. Gold currency to-day is a farce, in regard to our internal trade; the business of the country is conducted on a paper currency.

Moreover, Government is awake to the truth that it is possible by "peaceful penetration" for an enemy to gain such economic power over a nation, as given time and opportunity will enable it to throttle the life out of its rival with

the least display of military force. Were it possible to visualize the peril from which the British Empire so closely escaped in 1914, there is not a man or woman in the land who would not, sick with horror, wonder whether it were a Divine decree that compelled Germany to declare war when she did, and not to wait for another ten years. Even yet the peril is not wholly over; the submarine menace threatens our food supplies. As Midas besought the gods that everything he touched should be turned into gold, so we prayed that everything we required should be at the cheapest price possible. We are learning the costliness of cheapness-at-any-cost to-day, much in the same way as Midas discovered his folly.

A bond of sympathy between Mr. Kitson and the writer of this Preface has been an equal admiration of Ruskin. Ruskin wrote foolishly on the subject of factories and machinery, especially machinery. But his point of view is intelligible. Taking his stand on the cold-blooded theories piled together by Mill and other writers, he envisaged machinery as the Moloch to which humanity was to be sacrificed by the followers of the false laws of political economists. He did not recognize that the difference between a steam-tractor and a plough or an American reaper-and-binder and a sickle is only one of degree, that each is constructed for the service of man; but he did see clearly when all around him were blind that the human element must ever be the decisive factor in all enterprise, and that it can never be eliminated. This eternal truth has been

drummed into our heads by the big guns of battle. Multiply the engines of destruction as we will, yet victory or defeat in the ultimate issue can only be decided by man.

"It is the law of good economy to make the best of everything. How much more to make the best of every creature!" So Ruskin spoke in a lecture on "The Future of England" delivered in 1869. And again: "All land that is waste and ugly, you must redeem into ordered fruitfulness; all ruin, desolateness, imperfectness of hut or habitation, you must do away with; and throughout every village and city of your English dominion, there must not be a hand that cannot find a helper, nor a heart that cannot find a comforter." Formerly these were regarded as mere beautiful words, but to-day who will deny that they embody not only a truth, but a vital economic truth?

In the course of a recent letter Mr. Kitson wrote to me in these terms:

> "From my earliest days since I began the study of economics I have been convinced that orthodox economics as taught in our schools and colleges is founded on a gross fallacy. I have always been a believer in the unity and harmony of science. I cannot imagine one branch of human knowledge in its development deliberately contradicting another branch. The whole science of political economy has been avowedly opposed to all moral considerations, and writers like Mill, Cairns and even the late Professor Smart have not hesitated to say so. In the little work I have done in this direction I have aimed particularly to expose the crudities and unscientific character of economic 'science' and have striven to lay the basis of a science

> that will harmonize with other branches of knowledge, and particularly with the science of ethics. I mention this because it is at this point that I differ with many other writers, and even with Professor Hobson, although he has been working in this direction for years. I consider that Ruskin was one of the greatest economic writers that this country has produced, and we shall have to follow his rules and teachings to a considerable extent in the future if we are to succeed in building up our trade and industries on a satisfactory basis."

Remember these are the deeply considered opinions of a man in the prime of life, who has been engaged in industry over thirty years here and in the United States, is a manufacturer and an employer of labour, and is the son and the grandson of manufacturers and employers of labour. The last essay in this volume on the psychology of the workshop represents at the present time not only the opinion of the writer of it, but, I believe, of many hard-headed and level-minded employers of labour throughout the kingdom.

"It is as though civilization were standing to-day in the twilight of dawn. As the mists lift and earth shows forth more plainly, the heavens seem to recede, and the stars fade from sight, so that there comes to the watcher a strong temptation to deny in that moment the reality of the heavens. But he need only wait for the light to grow stronger for them again to become visible." So I wrote six years ago and the words seem already to have come true. Never have the eternal principles of freedom, justice and humanity shone forth more clearly, and never

have men been more determined to make this earth a nearer resemblance to the heaven whose existence they have denied because of the needless misery around them. But this revolution will not be accomplished in a day, or without effort of mind and body. It is books like the present volume that help it forward, and stimulate and concentrate men's thoughts on the gigantic work of reconstruction that lies ahead of us.

FRANCIS STOPFORD.

"LAND AND WATER" OFFICE,
5 CHANCERY LANE, W.C.2.
March 25, 1917.

AUTHOR'S NOTE

THE publication of the following articles in book form which appeared in *Land and Water* during the past two years is due to the numerous requests from the readers of that well-known periodical.

I have to record my thanks to the proprietors of *Land and Water* for permission to reproduce these articles. Since they were published in that journal they have been revised and in some cases added to. As they were written under the circumstances prevailing at the time, and as these circumstances have often changed considerably in the wild whirlpool of war in which we live, it has seemed advisable not to attempt to bring them up to date; it would frequently weaken arguments and dull the edge of current analogy, so I have attached to each chapter the date of original publication.

A. K.

STAMFORD,
March 22, 1917.

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THE PSYCHOLOGICAL FACTOR

CHAPTER I

(*December 4th,* 1915)

THE PSYCHOLOGICAL FACTOR

WHEN the complete history of the Great War comes to be written, the historian will be confronted with some rather puzzling problems. For example, why have the Allies made so little effort to counteract the enemy's influence in neutral countries? Why have they so completely failed to employ the psychological factor against the enemy, whilst the enemy has employed it in neutral countries with such skill and success against the Allies? Why have the Allies been so negligent of the strongest weapon they possessed?

When the war started, the Allies were—as all the world now knows—entirely unprepared to cope with the gigantic onslaught of the German armies, which long years of work and preparation had made

irresistible. But what they lacked in men and munitions they gained in the moral strength and justice of their cause. Never since wars began has the righteousness of a cause been more conspicuous or more one-sided. The Allies held the trump cards. Their cause was that of the whole world —apart from that of the aggressors. Ranged on the side of Great Britain, France, and Russia, stood Civilization, Liberty, Chivalry and everything that mankind aspires to—freedom from bondage and oppression, the right of all nations to live their own individual lives, to speak and read in their own native tongue, to worship according to their own particular faith. All the natural aspirations of the vast majority of the world's inhabitants appeared to be centred in the victory of the Allies.

Neutral Indifference

Had any one predicted sixteen months ago the course the war has since taken and the present attitude of the various nations, the most incredible part of the

predictions would have been the apparent indifference—and in certain cases even the open hostility—of neutral countries to the Allied cause. One would have felt safe in asserting that any Power that dared insult humanity by disregarding every code of honour, by rejecting every rule hitherto recognized by civilized nations for mitigating the horrors of warfare—by brazenly tearing up treaties, invading neutral countries and reverting to the methods of ancient savagery—as Germany and Austria have done, would have aroused the vengeance of the entire globe, and launched all the forces of civilization against them. And yet, see what has happened. A considerable proportion of neutrals believe to-day that Germany's cause is a righteous one. Germany's rulers have succeeded in convincing their own people at home and abroad, as well as many neutrals, that the Allies were the aggressors.

Apart from Italy, who entered the war because of her ancient hostility to Austria, it must be admitted that Germany has managed to secure greater help from neu-

trals than have the Allies. Germany has secured the active co-operation of Turkey and Bulgaria, and has prevented Greece and delayed Rumania—the avowed enemies of these two races—from declaring war themselves on the side of the Allies, and has forced King Constantine to follow her example in the matter of disregarding treaties. Sweden is—in sentiment at least—decidedly pro-German. Switzerland, in spite of her danger from Germany's success, is divided, with a considerable balance in favour of our enemies. Holland seems similarly divided, and as loath to oppose Germany as though she belonged to the Teutonic Empire. Spain leans towards the German cause. Pope Benedict XV is known to have similar leanings. Lastly, the United States—whom every one would have counted as being strongly and even aggressively on the side of Freedom—prides herself upon her rigid neutrality, and looks on this great struggle with comparative indifference. I speak now of the Government and the general opinion of the American people as expressed by their

leading journals. It can hardly be doubted that if Germany had secured control of the seas and defeated our Navy, the munitions that have been and are still being shipped to the Allies from across the Atlantic, would have been going direct to Germany. Whatever help the Allies have received and are receiving from neutral countries, is due to the strength of our Navy and to commercial and financial policies, and not to any moral considerations.

Allies' Main Strength

What every one would have regarded as the main strength of the Allied cause—its justice—seems to have been of little material advantage. At first sight it would appear as though moral considerations were of little or no value in warfare, and would lead one to despair of the ultimate triumph of Right over Wrong. Let us see, however, how this apparent inversion of the moral order of things has been brought about. How is it, to use our metaphor once more, that with so poor a hand, Germany has

been able to score so many points, and with a handful of trumps why have the Allies failed to win? The answer is that from the very beginning of hostilities, Germany seized the psychological factor and has ceaselessly employed it with daring skill and even brazen effrontery, whilst on the other hand the Allies have—either through ignorance, indifference, or foolishness—neglected or refused to use the strongest weapon they could possibly have found and which good fortune originally placed in their hands. Indeed, they have allowed the enemy to spike their most powerful guns!

When the German rulers first planned their treacherous attack upon their neighbours, they drew up a lying report, setting forth the causes and origins of the war, asserting that Germany was surrounded by a world of enemies hungering and thirsting to destroy her, which was to be published at home and abroad as soon as war was declared. Preparations for a universal propaganda were made months and even years prior to the war. In every neutral

country, emissaries of the German Government bought up newspapers and paved the way for controlling public opinion. It is stated that upwards of £10,000,000 has been spent by the German Government in the United States alone on propaganda work. Newspaper and magazine articles, pamphlets and lectures illustrated by the cinema, have been produced and delivered by the thousand in all lands and in all tongues!

Avalanche of Falsehood

Against this avalanche of falsehood the Allies have apparently done nothing, beyond offering a direct denial. It is safe to say that not a single newspaper has been purchased or started in a neutral country by any of the Allied Powers for the purpose of counteracting this deadly campaign of German slander. Our own Government appears to have been content with the publication of a selection of Foreign Office literature, and one or two speeches of Sir Edward (Viscount) Grey, which was sold to the public at the price of one shilling a copy.

These, together with a few cheap pamphlets containing a digest of the Blue Book, and a recital of the horrors perpetrated by the Huns in France and Belgium, appear to be our total contribution to the world's demand for enlightenment regarding the greatest conspiracy in the world's history. The French have done a little better. The Russians, less than ourselves. Moreover, the long delay in the publication of these pamphlets gave our enemies the field to themselves during the first months of the war. It is true that private effort has in a measure helped to make up this deficiency. But in spite of all this, it can be truthfully asserted that the neglect of the psychological factor by the Allied Powers on the one hand, and the enormous use which the enemy has so skilfully and unscrupulously made of it on the other, has greatly prolonged the war and increased the strength and resistance of the enemy.

The psychology of the German people is probably the simplest to understand of any people in the world. It is all writ large in the methods they employ against those

they wish to conquer. When the Germans desire to achieve certain psychological results, they first ask themselves what would produce those results among themselves. For example, they are anxious to make their enemy civilians tire of the war and beg their Governments to sue for peace. To the question "What means must we employ to accomplish this result?" their answer is "Precisely those which would cause our people to beg for peace." Hence all the horrors and deeds of frightfulness at which the world has stood aghast!

Here it would be well to notice how unwittingly our enemies have exposed the true inwardness of their own character by their interpretation of the psychology of other nations. Knowing that fear and greed are the two most potent influences by which they themselves are swayed, they calmly assume that by these same influences the whole world can be governed. This affords us a most interesting view of the kind of "Kultur" the Germans have acquired. It is a fact that the greatest surprise and disappointment the German

rulers have yet experienced during the war is the utter failure of their deeds of frightfulness—Zeppelin raids, etc.—to create panic and terror among their adversaries. This has puzzled them beyond words. That their methods have succeeded in the Balkans need not astonish us, for it is among those races whose psychology and morals (or *im*morals) are nearest akin to their own, that one would naturally have predicted the results that have happened, one might almost say inevitably.

The psychological factor is far too large a subject with which to deal in detail within the space of a single article. Some time ago I suggested the creation of a "Ministry of Psychology" to work in conjunction with the Ministry of War and Munitions. Perhaps a "Ministry of Publication" would be a better term, since it is chiefly by publication that psychological effects are produced. The object of such a Ministry would be to endeavour to influence—through suitable channels—public opinion, both at home and abroad, and enlist the sympathies of all neutral countries; to

supervise and censor all publications at home and to stimulate and encourage the martial feelings of our own soldiers and sailors, as well as those of our civilians, by giving ample information of the origin, meaning and object of the conflict; the results to this country and to the world if the enemy succeeds, and also if he is defeated. Graphic accounts of military and naval encounters and exploits against the enemy and publications of the names of those regiments, ships, officers and men who have distinguished themselves should be given as often as possible. The presentation of suitable scenes and incidents in the Great War by films, which should be shown, not only to the troops themselves and civilians, but particularly to those employed in munition and other works. Had a large number of such views, been prepared by us and arrangements made for their display by means of cinema shows accompanied by lectures at all the great industrial centres once or twice every month, there would have been for instance in the past, far less delay in munition work. Such a

Ministry would necessarily require a profound and intimate knowledge of the psychology of all nations, including, of course, our own.

No finer war material was ever possessed by a nation than the men who form our armies and navies in this great war. That they have maintained their cheerfulness and ardour with so little help and encouragement from those psychological aids which our enemies provide in abundance, shows the wonderful quality of the men. The war is not yet over. The psychological factor will assume a greater and greater importance as the end approaches. It is not yet too late for the Allies—and particularly Great Britain—to create a department controlled by men of world-wide experience, who would know how to employ this factor in a manner that would prove of incalculable value to the Allied Cause.

The Council for Foreign Relations did just this- was Kitson used? wgs 7/12/89

To the contrary, Kitson was

[illegible]

Too many people, including Arthur Kitson, think that a world government under a supreme ruler would solve all of their problems. Do they really think that such

a savior exists? Kitson's progress as a pilgrim seems to prefer an F.D.R. or a Ronald Reagan over Jesus Christ. Economists of all persuasions are brothers.

wSl
7/12/99

CHAPTER II

(*January*, 1916)

THE FINANCIAL FACTOR

NOTWITHSTANDING its enormous economic and social importance to every member of the community, finance is not a particularly popular subject for discussion. Moreover, any attempt to deal with it in the space of a comparatively short article which will be comprehensible to the ordinary reader presents many difficulties. The subject itself is somewhat abstruse and highly technical, and its discussion involves the use of terms which often convey different meanings to different minds. For we are dealing with a branch of a science which is not yet classified as exact. Further, the average man's ideas of money and credit are usually based on partial knowledge, prejudice, and superstition. One whose financial knowledge and experience is con-

fined to the bank-notes and coins he carries in his pockets is very apt to believe in the existence of some special virtue or mysterious power lurking within the metal and paper of which they are composed. On the other hand, the man who has been behind the scenes, has learned the true nature of currency, has watched its progress in effecting exchanges, and knows its history past and present in all lands, will agree with John Stuart Mill when he wrote :

> "There cannot, in short, be intrinsically a more insignificant thing in the economy of society than money, except in the character of a contrivance for sparing time and labour. It is a machine for doing quickly and commodiously what would be done, though less quickly and commodiously, without it."

In endeavouring to make the subject comprehensible to the least instructed, I shall be compelled to deal with certain parts in a manner which, to the more enlightened, may seem very elementary.

Next to the problem of furnishing men and munitions necessary to win the war, that of the money supply has loomed the largest in the public eye. In one respect the importance of the financial factor has

been very much exaggerated. In another sense, its importance cannot be over-estimated. And partly from ignorance and partly from confusion of thought most writers on this subject have insisted on its indispensability where it was least essential, and have failed to point out certain dangers where they really exist. At the beginning of the war more than one journalist confidently predicted that the Central Powers would collapse within a year—through the exhaustion of their gold supplies. Others are continually harping on the fact that the financial resources (meaning gold) possessed by the Allies' ensure victory. These assertions are strengthened by the unfortunate use of such catch phrases as "beating the enemy with gold and silver bullets." All this is sheer exaggeration and displays a lamentable ignorance of the real nature and functions of money. If through a stoppage of our paper mills we were to run short of railway tickets, theatre tickets and postage stamps, no one would consider this a valid reason why the authorities should suspend our railway

and postal services, and close our theatres. Substitutes for tickets and stamps would soon be furnished, and the traffic, performances, and services would proceed as usual. So it is with the money supply. Some of the greatest wars in history have been fought and won by nations who, from the financiers' standpoint, were hopelessly bankrupt. Napoleon and the French Republic fought Europe with nothing more solid in the financial line than "paper bullets." Great Britain fought and conquered Napoleon with the aid of similar financial weapons. The American War of Independence and their Civil War were both similarly financed.

A century ago writers would not have laid nearly so much stress on the importance of gold as many do to-day, for the reason that there was far less superstition regarding the use of the precious metals for currency purposes. The old economists had far clearer ideas of the functions of money than many of our modern writers. For example, the theory that money must possess what is called "intrinsic value"

did not serve to confuse the minds of students of monetary science in the days when the only money circulating was so-called inconvertible paper notes and token coins. No one at that time would have had the impudence to announce that "a currency system is impossible unless based on and backed by gold," as I have heard from the lips of a professor of economics. The mistake made by writers on war finance—whose knowledge is confined to our modern banking practice in the City of London—is in failing to remember that money is, after all, merely an artificial device, an invention, a contrivance for accomplishing certain ends which, under the stress of changing conditions, may be obtained in various ways. Money was defined by the economists of a century or more ago as "a ticket," "an order," "a token," "a counter." But after monometallism was forced upon the world by Parliamentary Acts through the influence of international bankers, money and gold became synonymous terms, and the true functions of money were confused with

those of the precious metals, although they are absolutely distinct. Hence the average man is unable to understand how a nation like Germany can continue the war after her gold reserves are exhausted.

Apart from the settlement of Foreign Exchange balances, and payments for foreign propaganda work, gold is of comparatively little importance to Germany at the present time. If the Central Powers were to lose every ounce of gold and silver they have amassed, it would have little or no effect on the war—so long as their foreign trade is cut off. *The supreme economic factor is production, not finance.* Finance is merely the artificial aid to production and exchange. So long as the enemy can furnish men enough, can raise enough food and raw material, can manufacture sufficient guns, munition and clothing, and maintain his transportation facilities to keep his armies going, so long will the war last. In a closed self-supporting Empire which the Teutonic Powers and their Allies may be said—within certain limits—to comprise, its entire business can be as

easily, as satisfactorily, and far more economically carried on by a State Bank paper currency system than with a gold and silver currency. So long as the paper money is made legal tender throughout the Empire for all debts public and private, so long as the Government itself honours it and keeps the amounts issued within certain bounds, there is no reason why such a system should not enable the enemy to develop his resources as the United States developed hers so successfully for the whole of the greenback period.

The real need for gold or some such valuable commodity in connexion with Foreign Exchange arises because paper currency loses its legal tender qualities the moment it leaves its own country. In this respect money is like a monarch. Whilst it is all-powerful on its own soil, it loses its power and ceases to function the moment it crosses beyond its frontiers. Strictly speaking, money—meaning legal tender—never goes abroad. The commodity of which it is composed may travel, in which case it becomes a piece of metal

of certain weight and fineness. But this is no more money—in the strict sense of the word—than the gold button of the miner is so many sovereigns. If I take a sovereign and deface the inscription or melt it down, although the gold is still intact, I have destroyed the money. If the entire commercial world were under one supreme ruler, all the bullion and coin of the world might be scrapped and buried, and a universal paper currency established which would maintain and facilitate trade and production far more easily and with infinitely less cost and friction than at present. That anomaly under which exchange value appears both as a quantitative relation and as a commodity at one and the same time—a phenomenon to which we owe many of our apparently economic Chinese puzzles—would disappear as soon as our legal tender laws which at present bind our money to a certain commodity were repealed. The desirability and demand for gold arises chiefly—indeed one might almost say entirely—on account of the fact that all nations have raised gold

to a supremacy above all other commodities by making it—when coined—legal tender for all debts and for any amount. The present value of gold is due more to this fact than any other circumstance.

The Financial Factor presents itself from two distinct and entirely opposite and conflicting standpoints. The one is the bankers and moneylenders, and the other is the producers. To the banker, money presents itself as a valuable commodity from which he must needs draw dividends in the shape of interest. Hence cheapness in money is as hateful to the moneylender as cheap clothing is to the sweater. For this reason the banking interests have waged unceasing warfare against State Banking and what they term "cheap money expedients." Moreover, the histories of cheap currency experiments have mostly been written by bankers, their employees, or hired professors, who have invariably presented the subject from this interested class's point of view. It is for this reason that so much importance has been attached to gold for currency purposes. Its scarcity, its dear-

ness, gives weight to the demand for high interest charges. On the other hand, the producer regards money more from the standpoint of its utility—his interests require the cheapest form obtainable—consistent with its ability to perform its work.

There are just three ways in which a nation can obtain its war supplies: first, by producing them; secondly, by purchasing them from neutrals; and thirdly, by plundering conquered provinces. Germany has obtained her supplies by all three methods. But owing to the Allies' command of the seas, her opportunities for purchasing have been greatly hampered. Hence her need for gold is enormously reduced. This, however, gives our enemy one advantage. It compels him to fall back on his own productive resources, thus saving him and his descendants the future burdens of interest charges on foreign loans. How much he has secured in the shape of forced indemnities and plunder from Belgium, France, and Poland, we cannot tell. There are evidences that hun-

dreds of thousands of men and women have been enslaved and forced to contribute their labour towards providing the enemy with food, clothing, and munitions. Whatever he secures from these sources are obtained without the need of either gold or loans. On the other hand, the Allies' supplies are obtained by production and foreign purchase, and hence their need for gold and foreign loans is far greater than the enemy's.

Now the particular method of raising funds has a most important bearing on production both present and future. And it is here that danger lies, which few, if any, writers have so far mentioned. At the beginning of the struggle Mr. Asquith stated that there were three methods of paying for our importations of munitions and other necessaries. One was by exports of our own products together with our maritime services, another by the sale of foreign investments, and the third, by the loan. And he advocated the last as the most convenient for the nation. Let us consider these. To pay by our exports

would mean that we should be compelled to produce continuously for export at least as much as in ordinary times of peace. But as a large proportion of our factories are now turned over to special work for war munitions—which from the economic standpoint is absolutely waste—our exports are necessarily curtailed. Similarly, since our ships are mostly employed in transporting men and munitions for the war, our maritime services, hitherto profitably employed on foreign trade, are also greatly reduced.

One point arises here which demands notice. If at the very beginning of the war greater encouragement had been given our own manufacturers by the Government to increase and develop their own plants, had fewer orders for munitions and larger orders for machines for making munitions been placed abroad, the Chancellor would have had far less difficulty in financing foreign purchases.

As to financing by means of loans, this is eventually the most ruinous of all methods, —although the most popular, because

its evil effects are not immediately perceived and the burdens entailed are spread over a wide area and a long period of time.

Financing a world-wide crisis like the present, by the method of the loan, means the inevitable enslavement of this and future generations. It inflicts a perpetual burden upon production! It constitutes a wedge which separates society into the two eternally conflicting classes: the idle rich, who live on interest; and the overburdened poor, who must produce it. Its effects are disastrous both socially and economically. It is probable that at the end of the war our National Debt will aggregate at least £3,000,000,000! The annual interest on this sum will be £150,000,000. This is three times the total net earnings of all the railway and tramway companies in the United Kingdom! It will be as though the enemy had invaded our country and seized all our transportation facilities and commandeered the entire profits for ages—until the loans are paid. And what advantage does the nation get in return for this annual tribute? *Merely*

time! Actually this and nothing more! We shall be paying this colossal sum merely for the privilege of being allowed to pay the principal—if ever—at a more convenient season. At the end of twenty years we shall have paid in interest charges a sum approaching the entire cost of the war without having reduced the original debt by a single shilling. Such is the merciless nature of the loan! Moreover, the rate offered by the Government—viz., 5 per cent.—is far in excess of the average net earning capacity of the factors of production themselves. A simple arithmetical calculation will show that production does not keep pace with the demands of interest charges at anything like 5 per cent. After providing for the proper nourishment and sustenance of the two prime factors themselves, land and labour—so that production and reproduction may continue and develop—after reserving the necessary amount for wear and tear of capital, after deducting for the expenses of Government, national and municipal, for education, for defence, for the protection

of the sick, the wounded, the aged, the infirm, the insane, etc., etc., the residue will not be sufficient to pay an average of anything like 5 per cent. on the nation's capital.

Some twenty years ago I showed that even in a country as rich in natural resources as the United States, the claims of capital outran the capacity of production, and hence periodically wholesale bankruptcy and starvation of the factors themselves was inevitable. . . . .There remains for us to consider the other method of financing the war mentioned by the Prime Minister. This plan has recently been adopted by the Chancellor of the Exchequer. American securities are now being exchanged for British Government Bonds, so that payments for American munitions and other goods can be made in American currency. This is by far a better arrangement than that originally adopted by the Government. Briefly stated, the advantages are as follows—

1. It will tend to confine the Government loan to our own people, and therefore the

interest will be largely expended on British products.

2. It will tend to reduce the volume of tributary goods flowing into this country from abroad which have hitherto competed with our home products, and tended to reduce wages and foment labour troubles.

3. It will tend to cheapen future loans for productive enterprises—a consummation devoutly to be wished.

It may be inquired, "What method of financing the war could have been adopted other than those already mentioned by the Premier?" I will attempt to answer this as fully as the small space remaining will allow.

At the end of July, 1914, when war was seen to be inevitable, our banking system, which was supposed by the man in the street to be impregnable, suddenly collapsed. Although the public received the news with astonishment, those who, like myself, have known and have striven for years to open the eyes of the public to the imminent danger of the confidence-basis upon which the business of our Joint Stock

banks has been conducted, fully expected this catastrophe. In *An Open Letter to the Chancellor of the Exchequer* (published by Dent & Sons, November, 1911) I said:

> "Under the fatal ban of the legal tender and Bank Charter Acts, all banking enterprise of an original character has been suppressed, and our Joint Stock banks have had to erect their vast edifices (of credit) upon the narrow and unstable foundations provided by these laws. To one who has given the subject any careful thought, the marvel is that we have so long escaped the inevitable *débâcle* which sooner or later must overtake us."

Again in the same letter I said:

> "Moreover, it is as certain as that the sun will rise to-morrow, that in a great crisis we shall be compelled to suspend our Bank Charter Act and accommodate ourselves to paper money."

Instead of doing what has been done on former occasions under similar crises—viz., suspending the Bank Charter Act—our Government—in my judgment very unwisely—declared a moratorium (an indirect way of announcing bankruptcy), a humiliation which must have caused our former great Chancellors, Peel, Gladstone, and Goschen, to turn in their graves. The generosity of the Government saved the

banks, as usual, at the public expense. The entire credit of the nation was placed at the banks' disposal, which enabled them to open their doors, resume business, and avoid a receivership. The nation was compelled by a complacent Chancellor to take all the risks whilst the bankers took all the profits. If at that time the Government had seized the golden opportunity of nationalizing our entire banking business, instead of catering to the private interests of bank shareholders, they could have effected one of the greatest and most valuable economic achievements of modern times, and gained for the nation incalculable advantages. Unfortunately for this nation, neither the Government nor the Chancellor seemed to realize the advantages to be gained for the nation, or the opportunity which the banking collapse offered.

The present banking business of this country, which is practically a monopoly, is an extremely lucrative one, and is due to the special privileges granted by law. In the hands of the Government, it would be made to produce an enormous revenue,

whilst by extending credit facilities to manufacturers, farmers and small producers generally, at moderate rates of interest, a very great impetus might be given to production, and untold benefits conferred upon some of our most deserving classes, who are at present cut off from such credit facilities by the autocratic methods of our London banking directors. Moreover, under a national banking system, there need have been no war loans so far as Government purchases in this country are concerned. Issues of paper money would have sufficed for all domestic requirements. Germany is very wisely doing this at the present time to a very considerable extent. It is said that the German banks have issued and circulated since the war notes equivalent to £1,000,000,000. No doubt this has tended to depreciate the value of the mark as compared with its purchasing power prior to the war. Disadvantageous as this may be in many ways, it is infinitely preferable to the murderous effects of the loan. After all, the evil effects of a depreciated currency are

more apparent in foreign than in home trade. But these effects are both ill and beneficial. It injures creditors, it benefits producers and debtors. It injures importers, it benefits exporters. Unfortunately, we are so completely under the continual shadow of the great London octopus, we are unable to see things in their true proportion. It has been the persistent policy of every British Cabinet since Sir Robert Peel's administration to sacrifice all and every interest towards maintaining the supremacy of the London bankers. To such a degree has this policy been carried out that the average man believes the British Empire would collapse if London ceased to be the money market of the world. And to maintain this, British trade and production have been both sacrificed and taxed to an incredible degree. The United States has grown to be, economically speaking, a far more prosperous and richer country than ours. And outside of Wall Street, no American particularly aspires to see New York or Chicago the world's monetary centre. The same

might almost have been said of Germany prior to the war. It is questionable whether the London money market confers any substantial benefit on our home trade, our manufactures, or commerce. But it certainly does expose us to the most harassing and most fluctuating bank rate of any commercial nation in the world.

One further method of raising funds may be mentioned. The method is so simple one is almost ashamed to mention it as novel. If, instead of offering bribes in the form of interest, the Government had made an appeal to the patriotism of the people to contribute funds voluntarily, I believe money would have poured in sufficient to carry on the war. Certainly few would have refused to lend their wealth without interest—to safeguard England and her Empire. It seems incredible that a people would freely offer their lives and those of their husbands, brothers and sons to preserve the safety of their country, whilst refusing to give a portion of their property for the same object. Had the Government trusted and confided in the

people instead of following the advice of our bankers, this war might have been fought and paid for without inflicting all these burdens on future generations. To deny this is to deny that the British people are patriotic, and to accuse them of holding property far more sacred than the lives of their sons and brethren. It may yet happen that such an appeal will be found necessary. When that time comes the people will be found ready to make any sacrifice required to crush the enemy.

In conclusion it may be objected that these ideas and suggestions are revolutionary. The answer is, we are already in the midst of the greatest revolution the world has yet experienced. The old order passeth. A new one is dawning. What its character will be depends much upon the ideas and actions of those of us now living.

7/12/59

Kitson seems to be far more worried about the bankers and the loss of business to the Germans than he is about munitions.

7-13-89 A Turncoat

Kitson doesn't seem very concerned about the fact that the "Great War" was planned - only about winning under the other adverse conditions controlled by the financial instigators.

This makes him part of the problem

No matter what truth one might shed light on, it can most likely be twisted to benefit evil forces. For example, "The supreme economic factor is production, not finance." What kind of production do you what to unleash?

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CHAPTER III

(*January 20th*, 1916)

CAPTURING GERMAN TRADE

MUCH time, energy, and money are being expended in the laudable endeavour to get our merchants and manufacturers to realize the unique opportunity presented by the war for capturing some of the trade hitherto enjoyed by our enemy. The Board of Trade has opened a department for furnishing useful information regarding foreign markets, our Consuls are beginning to send reports of foreign wants and conditions.

The British manufacturer has been severely lectured and criticized for his lack of enterprise for his refusal to adopt new methods, his conservatism and general thick-headedness. No doubt much of this is well deserved. The foreign agent, anxious to supply British goods, has shed

many a bitter tear over the stupidity of the Briton who argues that because his manufactures are recognized as satisfactory in his own country, they should therefore be good enough for the foreigner. His refusal to understand or to try to understand the foreign want has cost this country dearly. But when all this is admitted there remains much that requires further elucidation.

Great Britain in the past has been easily the first and leading industrial power. Her early inventors, the enterprise of her capitalists and merchants, the skill and perseverance of her artisans made this land the world's home of industry. For over a century we reigned supreme in the industrial world until we began to find ourselves challenged first by the United States and then by Germany.

New Competition

The advent of American and German competition has, however, entirely changed the character and methods of trade. Since the days when Richard Cobden preached

his gospel of the civilizing and pacific influences of trade, trade methods have undergone a complete revolution. Far from being pacific, modern trade involves a merciless system of warfare. It is war to the knife, in which the financially weak must succumb to the financially strong. Nowadays business success requires something more than brains and more than skill. Success is usually on the side of the big bank account. Finance has become more and more the dominating factor in the international trade warfare which has been waged with such determination and ruthlessness during the past thirty-five or forty years. And it is this particular factor which is never referred to in all the literature which the authorities are distributing so generously.

A comparison of the methods by which the Germans have captured so much of the world's trade, with our own will throw a flood of light on this subject. For the past fifteen or twenty years German trade with Russia and Turkey, for example, has increased at an enormous rate. Notwith-

standing the Germans are and have been personally disliked by the people of both countries—owing to their insolence, coarseness and unscrupulousness—the Turks and Russians have found that their wants have been better supplied on more reasonable terms than by those of any other nation. The Russian dealer likes long-time credit. The German firm gives him all he demands. I have seen German bills drawn against Russian firms for terms of three, four, and even five years.

Again, the German merchant not only learns and speaks the language of the country he wishes to trade with, but prints all his catalogues and price lists in the same language, and adopts the same monetary, weight, and measure units. His prices usually include delivery to the customers' doors. He distributes samples of his goods freely. He measures the character of those he deals with, and acts accordingly. He has no scruples. No Oriental politician can rival the smart Teuton salesman in matters pertaining to bribery and corruption.

But behind all this stands the German Government in the persons of the German Ambassadors and Consuls, whose duty it is to assist in every possible way the introduction and extension of German trade. No German prince, not even the Kaiser himself, has ever considered it beneath his dignity to solicit favours and privileges from foreign rulers on behalf of German merchants. Much of the loyalty and patriotism of the average German is directly attributable to the belief that his King and Government are interested in his particular welfare and make it one of their duties to support him in his efforts to secure success. But the chief factor in Germany's industrial success is undoubtedly its banking system.

German Bankers

The German banker understands that his chief and most important client is his own countryman, and he stands ready to assist him to the best of his ability. The German manufacturer, inventor, merchant, tradesman, agriculturist and producer gen-

erally, have little difficulty in securing whatever financial support they require, provided, of course, they can satisfy their banker of their ability to produce and sell goods at a reasonable profit. The German banker shares in the profits of the industry he supports, and hence the holders of his bank shares do not depend upon the mere interest charges on loans. German banks are therefore part and parcel of German industries, aiding and supporting them, ready to assist in every emergency and in every industrial development which promises success.

Now contrast all this with our British methods. The average Briton knows no language but his own—and that often imperfectly. He produces only the goods he has been accustomed to all his life, and makes little or no effort to improve his methods or understand the wants of foreigners. He sends his English catalogues abroad and quotes in English currency, f.o.b. London, Liverpool, Hull, Glasgow, or some other British port. His terms are cash against documents, or so many

days after receipt of invoice. There are, of course, many exceptions, but I am referring to the *average* British firm. And unlike the German, he meets with little or no support from his own Government. Neither his Ambassador nor his Consul will, as a rule, move a finger to help him secure a contract or develop his foreign business. He stands absolutely alone! Not only so. Very frequently he will find his Consul addressing him in Teutonic accents. For some inscrutable reason, the British Foreign Office has, for the last half-century or more, considered that British interests in foreign ports were as safe or safer in the hands of Germans than in those of the British themselves.

British Consular Service

In an article entitled "Consular Service Reform," published in the *Open Review* (July, 1909), Mr. Percy F. Martin, F.R.G.S., says:

"From a long and intimate acquaintance with the methods of modern Consular Service, gathered, I may add, in every part of the world, I am firmly convinced that a more clumsily conceived or a more

indifferently conducted system of Consular representation does not exist than that of Great Britain. . . . Many persons who occupy the position of British Consul are 'British' neither by birth nor sentiment nor in method. . . . It was proved that throughout the great Empire (Germany), which is opposed so much to British trade and commerce, and between whose commercial representatives and ourselves has so long existed and must ever exist the keenest rivalry, nine-tenths of the Vice-Consuls are of German birth and origin."

This was written, bear in mind, just five years before the war.

In addition to all these disadvantages, the British manufacturer and merchant reap no financial benefit at the hands of their banker by reason of their being British citizens. The English banking system has been extolled—mostly by the money-lending classes and foreigners—throughout the world. Viewed from the standpoint of the foreigner, there is no question that it is a wonderful institution. For it collects the savings and earnings of the British people and distributes them with the utmost impartiality to the highest bidder, whether British or foreign, all over the world. The London banker is essentially an internationalist. He regards all

nations with an entirely impartial eye. He is swayed by one motive only—namely, the determination to win big dividends with the least possible risk. If the foreign competitor requires financial accommodation and is willing to pay a higher rate of interest than the British producer (with the same security) the foreigner wins. There are dozens of German industries flourishing to-day, built up and supported by British capital. It has long been the cry of English firms that their banks offer them little or no support in the development of their businesses.

The Two Banking Systems

The broad distinction between the British and German Banking System is that whilst the former depends for its rewards upon what the ancients termed usury (that is, payment for use), the latter depends upon production. And between these two systems a great gulf is fixed. For the one is less concerned with the industrial success of its own country than the other. It is not of such serious moment to the London

banker whether British trade is dull as the decline of German trade is to the German banker, for the London banker regards the world as his oyster. If the British producer finds trade too dull to employ the bank funds profitably, there are others. The German, or American, the Brazilian or Argentine merchant will be glad to employ them. Hence the dividends of our banking companies show comparatively little variation regardless of our trade conditions. But industrial depression of the Fatherland means financial depression for the German banks, and vice versa. Hence it is entirely to the advantage of the German banker to assist to the best of his ability in stimulating the industrial prosperity of his own people. Our banking system deserves a chapter to itself. As a safe system for earning steady dividends for bank shareholders it stands almost unrivalled. For, as was demonstrated in August, 1914, in times of crisis it has the credit of the nation behind it without having any well-defined responsibilities thrust upon it, so that whilst the banks are allowed to reap all the

profits, the nation is compelled to take the risks. There are no obligations on the part of any of our banks to render aid or facilities to any British industries whatsoever. Such help is purely optional.

As a national institution, our banking system is one of the most expensive and harassing that could possibly be devised. It taxes the British producer for the benefit of the foreigner. It compels him to provide at all times a free gold market and a fixed level for gold, chiefly for the benefit of foreign merchants. It subjects him to the most variable bank rate in the world! It has been variously estimated that every advance of 1 per cent. in the bank rate costs this country from £50,000 to £100,000 per week!

In addition to all the advantages enumerated and possessed by the German producer, there is the further one that he is protected to a large extent from foreign competition in his home market. Every Government department in the Fatherland is forbidden to order goods from foreign firms where similar goods are purchasable

in Germany. On the other hand, it has long since been the settled policy of our own Governments, Railway Companies, Municipalities and Corporations generally, to buy in the cheapest market, regardless of consequences. *What possible chance then is there for British firms to capture German trade? The answer is that there is no chance unless the conditions are completely changed.*

Before the War

Prior to the war, the man or firm who made such an attempt, soon discovered that he was fighting not merely a German competitor but—the entire German nation. And just as many of the small shopkeepers have been driven out by the great departmental stores, just as the small producer has been wiped out by the Trust and Combine, so many of our manufacturers and merchants have found successful competition with German houses—backed as they are by all the strength of the German Government—impossible! Since the war started, many instances have come to our knowledge of enemy firms having been

guaranteed certain dividends by their Government, provided they used every effort to oust rival nations from foreign markets. These firms were even advised to offer goods below cost, until all competitors were driven out, such losses being made good by the State.

Again, the interest of the German authorities in every branch of industry is illustrated by their policy of furnishing gratuitous help to German inventors and discoverers. Take, for example, the glass industry. Heat-resisting glass is a comparatively modern discovery, and was practically a German monopoly when the war started. The story of the rise of this industry was told me by a German professor of Jena some years ago. Two professors of the University of that town stumbled upon a method of manufacturing glass which could withstand both high and low temperatures without breaking. Recognizing the value of their discovery, they applied to the Government for financial assistance, and it is said the Government immediately responded with a gift of

300,000 marks for the purpose of completing their experiments and starting the industry. This industry employed at the outbreak of the war many thousands of people, and represented some millions of pounds of revenue to the German nation.

Again, compare the German Government's attitude towards their dye industry, which has become another vast monopoly, to the treatment accorded this industry by our own. Here was an original British invention made the basis for a German monopoly! Is it not a fact that hundreds of British inventors have had to go abroad or sell their inventions to foreigners in order to get them taken up? Have not many of our progressive manufacturers been compelled to import German chemists and scientists to assist them in the development of their manufactures? Can we possibly wonder at the enormously greater progress of German industries when we contrast the entirely different attitudes of the two races and their Governments?

Business Patriotism

What advantage—economically speaking—has it been to an inventor or manufacturer or business man generally to belong to the British nation? What privilege or advantage has his British birth and citizenship conferred upon him which the foreigner is not equally entitled to? Except for the purpose of taxing him or soliciting his vote, what evidence is there that our Governments have been actively interested in the success of the average Briton?

German trade can be captured only by the nation that can emulate Germany in her enterprise, her knowledge, her organization (where the Government lends its wholehearted support to its producing classes), and finally, in her banking methods, where the banks recognize their chief functions to be the support and development of their nation's trade and industries.

The lesson of business patriotism has yet to be learned both by our Government and people. No German could have writ-

ten such a letter as that recently published by a well-known Earl, who asked if it was conceivable that the British public would stand being compelled after the war to pay more for certain goods instead of buying them from Germany? If we are to win in our future trade warfare, we must present a solid front to the enemy. We must mobilize all our forces of production. We must consolidate our credit. The Government and people must unite to support and help each other. Our Ambassadors and Consuls must all be British to the core. They should be conversant with trade and commerce in all its branches, and constitute the advance guards for opening up new fields for conquest by our merchants and manufacturers. The Government should nationalize our banking system and place banking facilities on easy terms within the reach of all classes. Inventors, discoverers and scientists should obtain social recognition proportional to their attainments, and the conferring of titles on men of wealth regardless of the means by which their wealth has been acquired should cease.

In spite of our many shortcomings, this nation possesses all the material and resources for leading the world industrially and intellectually to greater heights than have ever yet been foreshadowed. For the accomplishment of this, all we need are leaders who have the knowledge, the will, and the ability to organize and develop these resources.

"Mere" interest charges on loans, as Kitson says, are as close as I want any financier to get to my business. While what he says about the Germans is true, the British do have already enough bad habits of their own.

wgd

The Black Widows of Finance

Trade Fallacies is a key work in understanding the the battle of the two basic 666 one worlders.

Katz is a key figure in showing the current war of nerves between the two - the one world bankers + the one world traders.

His "Update on Warmonger Activities" (after the Index) and chapter X, "The Enemy within", explain how he feels about Kitson type "Christians" and the need to exterminate them. Unfortunately, he

puts us all together. It probably is more than just a coincidence that the cover illustration of *The Warmongers* was done by a man named Jack Goldsmith-

the Goldsmiths and the Rothschilds being the current bed partners of the multi-national traders.

It is only a matter of time before they have a nasty-nasty divorce and we are their kidnapped child slaves.

CHAPTER IV

(*January 27th*, 1916)

ENGLAND'S BANKING SYSTEM

In his remarkable book *Germany and the next War*, Bernhardi mentions the following as one of the many advantages gained by war: "All the sham reputations which a long spell of peace undoubtedly fosters, are unmasked." The present war has undoubtedly "unmasked" the "sham reputations" of several of our most venerable —and hitherto admired—institutions—both political and economic. Among these may be mentioned the doctrine of *laissez faire* which has long been the accredited gospel of our governing class. Free trade appears also to have fallen from its lofty pedestal during the past few months, judging from the recent parliamentary debates and editorials in certain Liberal journals. But our one idol that is at

present in the greatest disrepute is Britain's banking system.

SCATHING CRITICISMS

Nowadays, it is almost impossible to peruse either a trade journal or newspaper without noticing some scathing criticism of the system which has hitherto been held up as a shining example of financial strength and efficiency. The *Daily News*, which prior to the war never expressed anything but blind and absolute faith in this national idol, publishes an article (January 15) by the Editor, entitled "Money for all," in which he says:

"When the war came, the false bottom fell out of our banking system and we made a startling discovery. We found that the banks were an imposing fair weather structure which tottered like a house of cards when the storm came and only survived because in one swift hour Mr. Lloyd George gave them the security of the nation. It was discovered that behind all the appearances of strength, the banks were a fiction and the reality on which they traded was the credit of the State, yours and mine and everybody's. Gold disappeared from circulation, and there flowed forth a torrent of notes issued by the Treasury and represented nothing but the credit of the nation.

"Walter Besant once said that 'the art of banking was to get other people's money and use it for your

own advantage.' There has been no more illuminating revelation during the war, and the question for us to ask is whether this private monopoly of the national credit can be permitted to continue? Can we start the future with a 'corner' in money? Or must we not see that money like political power must be democratized? If money is only a symbol representing the whole credit of the community, why should that symbol not be at the command of the whole community whose credit it represents?"

Now the remarkable thing about this article is not that it should be written at this time when "sham reputations" are falling in all directions, but that the writer did not make these discoveries and disclosures sooner. During the past forty years quite a library of publications have appeared, exposing the rotten foundation of Britain's financial system and predicting a collapse sooner or later. This danger has been the subject of many discussions and resolutions at various meetings of our Trade bodies and Chambers of Commerce all over the United Kingdom for the last thirty-five years. Some of the most vigorous criticisms have been written by members of the banking profession themselves, such as Sir Edward Holden, and by financial writers like Walter Bagehot, and on one or

two occasions no less an authority than the late Lord Goschen (when Chancellor of the Exchequer) uttered words of warning about the volcano upon which we were living. But like the warnings of the late Lord Salisbury, Frederick Harrison, Lord Roberts, and a host of others to prepare for the war in which we are now engaged, these utterances fell on deaf ears. For it has been the policy of the Press, with a few exceptions, to refuse a hearing to prophets who foretell danger or evil.

Now that the murder is out, it will be instructive and interesting to examine the wonderful financial edifice—the sham Gibraltar—which collapsed days before even hostilities had begun or a single shot had been fired. In his well-known work, *Lombard Street*, Walter Bagehot wrote:

> "The peculiar essence of our banking system is an unprecedented trust between man and man, and when that trust is much weakened by hidden causes, a small accident may greatly hurt it, and a great accident for a moment may almost destroy it."

Inherently Weak

To an outsider who for the first time

learns the true nature of banking, it will appear amazing that intelligent men should devise a system so inherently weak and seriously regard it as a basis for a great nation's trade and industry! That it has lasted so long speaks volumes for the honesty and faith of the British people—the most trusting people in the world. That the system should have been facetiously termed "The Great Confidence Game" is not surprising, for it is apparent that the basis of our banking business is public confidence. It is, however, only fair to say that the present system was neither designed nor foreseen by its founders as we now know it. It is a development, a sort of monstrosity—an abnormal growth—like a man's body attached to an infant's feet and legs.

In 1844 Sir Robert Peel, a well-meaning but narrow-minded statesman, placed British banking in a pair of iron boots. The foundation of the system was rigid and narrow. Little or no provision was made for the future development of commerce. The only question that appears to have

been considered by Sir Robert Peel was how to conserve the value of the sovereign. The development of industry and its needs was quite a side issue, indeed it seems hardly to have received any consideration. Consequently as the banking needs of the nation increased, accommodation had to be provided by enlarging the superstructure without any attempt to enlarge the foundation to a corresponding extent. The system, therefore, came to be likened to an inverted pyramid.

The system is briefly as follows: The Bank of England (which by the way is a private Joint Stock bank, and is not in any way a national institution so far as its control and management are concerned) is the financial rock upon which all other British banks and financial firms and institutions repose. It is known as the Bank of the Bankers.

"All our credit system depends upon the Bank of England for its security," says Walter Bagehot; "on the wisdom of the Directors of that one Joint Stock Company, it depends whether England shall be solvent or insolvent. This may seem too strong, but it is not. All banks depend on the Bank of England, all merchants depend upon some banker."

Banking Laws

Our financial system is the result of certain Acts of Parliament such as our Legal Tender laws, and the Bank Charter Act. The former defines specifically the manner and form in which debts must be paid. The latter defines restrictions under which the banks are permitted to supply the public demand for the debt-paying commodity. And although the one created the necessity for an ever increasing supply of legal tender, the Bank Act not only made no provision for such a supply, it even made such provision both difficult and expensive. So that it became more profitable for the banks to find a substitute for legal tender—thereby increasing the public risks. Hence the invention of the cheque system. Debts beyond forty shillings, both public and private, were made specifically payable in gold on demand. The mints were opened to the coinage of gold in unlimited amounts at the fixed rate of £3 17*s.* 10½*d.* per ounce. The Bank of England was allowed the privilege of issuing notes to

the extent of whatever gold it possessed, at the above rate. An additional issue of what has been termed "inconvertible" notes was allowed against securities and the National Debt to the bank (£11,000,000) at present amounting altogether to about £18,500,000. Subsidiary coinage was also provided for. *But the main fact in the Bank Charter Act, which constitutes the inherent weakness of the whole system, was that the amount of legal tender available for carrying on the nation's trade and commerce depended not on our domestic needs but upon the conditions of the money markets abroad!* If, for example, a trade boom in Germany or America created an urgent demand for gold, the only method the Bank of England possessed for retaining its reserves was to raise the bank rate. Whilst this tended to cut off some of the foreign demand it also penalized our own people by taxing their banking facilities. It became a double-edged sword that cut both ways, and although it has proved a wonderful instrument for booming the value of bank shares, it has proved a dead-weight upon the backs

of our producing classes and a serious brake upon the wheels of industry.

Our economic system has been ingeniously illustrated by an inverted pyramid. It is supported upon its gold apex, which carries all the credit of the country. Upon this we have reared all our trade, manufactures and business generally. The amount of gold has been a very varying quantity—but in any case it has represented an extremely insignificant sum in proportion to the load it has had to carry. Just prior to the war the total amount of gold available throughout the country was estimated at less than £60,000,000. The volume of credit resting upon this ran into hundreds of millions. The bank deposits alone—subject to withdrawal at sight—was at least ten times all the gold available. It is safe to say that altogether the volume of credit redeemable in gold on demand on August 1, 1914, was more than twenty-five times all the gold that the bankers could possibly scrape together! *The truth is, that ever since the passing of the Bank Charter Act, every bank in this*

country has been doing business on a margin of bankruptcy!

The engineer who constructs a bridge or machine, estimates the sizes and chooses his material on the basis of a margin of safety. He first calculates the maximum strains to which the bridge or machine will be subjected. He then multiplies this by two or three and builds accordingly. The Bank Charter Act compelled our bankers to adopt a margin of risk. No provision was made for any extraordinary event, such as war or panic. The one door of safety was—suspending the Act. This was actually done on three different occasions during the life of its famous author, with the result that the nation was saved from bankruptcy on each occasion. Imagine a Government passing an Act ostensibly for the protection of the public, which has to be suspended periodically to save the nation from its disastrous effects!

But the danger to which this Act exposed the country was not merely apparent in times of war crises. It was liable to arise at any moment through foreign events

which otherwise would have been of little or no consequence to us. The removal of the cotton crops in Egypt or in the United States, the speculations of financial "plungers" in New York, Chicago, or San Francisco, the decision of a Board of Railroad Directors in Argentina to extend their system, a presidential election in the United States, and hundreds of similar events which have little or no direct relation to our home trade—any one of these was sufficient to affect our bank rate by causing withdrawals of gold from the Bank of England and to influence our commerce disastrously. So sensitive is our money market, in consequence of this stupid Bank Act, that we actually experience greater and more acute financial disturbances on account of foreign events than is experienced in the countries themselves in which these events are happening.

When the Germans were besieging Paris in 1870, our bank rate stood at 10 per cent., whilst the rate of the Bank of France was only 7 per cent. The German Minister of Finance has boasted that no such panic

occurred in Berlin when war was declared in August, 1914, as that which was experienced in London at the same time. The wonder is not so much that our banks collapsed at the mere rumour of war, but that they have been enabled to continue so successfully for so long on so unstable a foundation. Can we wonder that foreigners have christened the British banking system the "Great Confidence Game"?

THE LONDON GOLD MARKET

CHAPTER V

(*February 3rd*, 1916)

THE LONDON GOLD MARKET

FINANCE, as taught in our standard financial books and by our orthodox professors, reminds one of English history as it was taught in British schools fifty and more years ago. At that time the average scholar could recite from memory the names of all the Kings and Queens of England from the Saxon invasion to the accession of Queen Victoria in chronological order. He could tell you the dates of all the great English battles and which side won; but of the intellectual, economic and social development of the English people—in fact of the *real* history of England—he knew nothing, for the simple reason that the history books told him nothing. It was assumed that the lives of monarchs and their Court favourites, their virtues,

vices, intrigues and wars were the only things that mattered, and chronicles of these events, interlarded with Court gossip, passed for English history. Similarly, British books on Finance such as one finds recommended by our Schools of Political Economy and by the Press generally, are usually confined to a history of the rise of the Bank of England, a description of the money market, the rules and practices of our banking companies and a eulogy of the whole system as well as the usual tribute to the honesty of our bankers. In short, the writers of these books tell their readers only one part and the least important part of their subject. They show how efficient, safe and profitable (to the banker) is the British banking system, how advantageous (to the banker and bullion dealer) is London's free gold market, what a wonderfully elastic and economic currency the cheque system provides. But the most important and essential part, viz., the relation of this system to industry, its effect upon British enterprise—whether stimulating or deaden-

ing—its cost to the nation, etc., in short, the public side of the question, is ignored.

Banking, in the eyes of the banker and his shareholders, may possibly be nothing more than a dividend-making business, first and last, but from the public standpoint, it is a necessary part of the great national economic machinery for the production, exchange and distribution of wealth. And the *raison d'être* of the banker and his institution upon whom special privileges have been conferred by British Governments, is to be justified by showing that he is "doing his bit" in supporting and developing British trade and production.

Like all inventions, banking systems are merely means to certain ends, and they should be judged solely by their efficiency in accomplishing those ends. And just as an Eastern traveller, who having confined his visits and observations to some Sultan's palace with all its riches and glories, without noticing the degradation, the poverty and misery of the inhabitants, might write of the wealth and

prosperity of that country, so the average financial authority is apt to write of the marvellous success of our financial system, because he has seen only the prosperous side, the big dividends and the wealth which—thanks to our special laws—our bankers are able to amass, whilst the bankruptcies and failures, the burdens and anxieties which this system imposes on labour and capital are unknown to him. An example will make this clear. The most popular and recent book on this subject is *The Meaning of Money*, by Hartley Withers, a well-known financial writer for the Press and at present the holder of a recently created office in the Treasury.

In a chapter extolling London's banking methods, Mr. Withers instances the great money crisis of 1907 which struck the United States and created such havoc in industrial, commercial and financial circles. This crisis, which it is now known was deliberately engineered by a clique of Wall Street gamblers, reacted on all the money markets of the world, particularly that of London. "The business of managing the

exchanges of the world during commercial crises," says Mr. Withers, "is obviously thrown on London, as things are at present, by its position as the only monetary city which is prepared to produce gold on demand." Gold was shipped from Europe to New York in large quantities—estimated at some £25,000,000 sterling, according to Mr. Withers—most of which went from London. As this amount would have depleted the reserves of the Bank of England, the bulk of it had to be drawn from abroad by the usual method of raising the bank rate. "It was," says Mr. Withers, "a very remarkable demonstration of London's complete control over the world's exchanges" since "four-fifths of the amount shipped to the United States were supplied by foreign contributions." He adds:

"It was thus shown by the events of this memorable crisis, that London's tremendous responsibility of providing gold when it is required anywhere by a pressing emergency, is one that can be bravely and cheerfully borne as long as England is in a position, by applying sufficient twists of the monetary screw, to force other nations to contribute their share to the common necessity."

Now this is very comforting and reassuring to the reader who knows little or nothing of the practical side of the question. But the most interesting part of the story has been conveniently omitted. It is true that our banks "weathered the financial storm with ease," as the late Lord Avebury expressed it, *but at whose expense*? The bank rate was raised to 7 per cent., and kept there for nearly three months, and although this enabled the banks to "weather the storm" by acquiring gold from abroad, incidentally it ruined hundreds of British merchants and producers and played havoc with our trade generally.

If there is any truth in the statements made so frequently, that every advance in the bank rate of 1 per cent. costs British borrowers somewhere between £50,000 to £100,000 per week, then this "twisting of the monetary screw to force other nations to contribute their share to the common necessity" served also to squeeze from the British producers somewhere between £2,500,000 and £5,000,000

in the shape of increased interest charges, to enable our bankers to save the American banks from the result of the machinations of a gang of unscrupulous Wall Street gamblers! But this is only a part of the story. When the bank rate runs up, as it did in 1907, all our banks begin reducing overdrafts, and refuse accommodation to thousands of British merchants and manufacturers who are often in sore need of such help. In consequence, enterprise is checked, production decreases, workmen are thrown out of employment or put on half-time, the public reduces its demand for goods, and business generally is depressed! Moreover, it takes months, and sometimes years, for the nation to recover from the effects of such a crisis. If the total losses caused to this nation by the 1907 panic could have been carefully estimated, it would have been found to far exceed in amount all the gold sent by our philanthropic bankers to save the American bankers from the just punishment their recklessness and unscrupulousness deserved.

The necessity which our bankers find

imposed upon them of rendering aid to foreign banks during financial crises, is one of the penalties this country is compelled to pay for the questionable advantage of maintaining a free gold market—the only one in the world.

Perhaps it will be convenient at this point to deal, once and for all, with this question of a free gold market. The bankers' bogy, which is invariably raised whenever a drastic change is proposed in our banking or currency laws, is the fear that London may cease to be the world's monetary centre. Any interference with the system which compels us to provide a free gold market (chiefly for the convenience of foreigners) is represented as fraught with the gravest commercial and financial dangers to this country. What advantage is it then to our industries, our trade and commerce that London should maintain its financial position as the world's banking centre? Soon after the United States currency crisis, the present writer put this question to the late Mr. Arthur Lee, a well known financial and commercial authority

who had given years of study to this particular subject. The reader need hardly be reminded of the vast importance of this particular question—especially at this time—when we are threatened with a stupendous trade war at the conclusion of hostilities. As our industrial and commercial classes will not be able to afford to carry any unnecessary burdens, it is wise now to consider closely whether this luxury of a free gold market is worth to the nation what it is costing.

Mr. Arthur Lee was a member of the London Chamber of Commerce and at one time President of the Bristol Chamber of Commerce, and in reply to an inquiry as to what advantages, if any, our free market for gold conferred upon British trade and industries, he wrote:

"It would be true to say that a free gold market in London is of assistance in securing to us such advantages as may accrue from London being the clearing house of the world. So long as London is the market of the world where gold may be most freely bought and sold, and so long as a monopoly is conferred upon gold in respect to its debt-redeeming power, so long will the exchange bankers and bullion dealers retain the enormously profitable financial business in which they have been engaged ever since modern laws con-

ferred a monopoly value upon gold. This would be an exact and truthful statement of the case. Whenever the pronoun 'we' is used, I am always tempted to ask the question, who are 'we'? I have heard from the lips of a working man words somewhat similar to those you say you found in a recent article on the subject of 'London's Free Gold Market.' I asked him if he had thought whether 'we' included himself, and if not, would it not be well for purposes of argument if he used the correct noun instead of an incorrect pronoun? The advantages of a free gold market to *certain classes* are obvious enough, but the advantages to the country as a whole are counterbalanced by such serious disadvantages that it seems probable that the latter outweigh the former. The advantages are:

"1. The expenditure in this country of the profits made by a very small class of financiers (mostly cosmopolitan).

"2. The deposit in this country of balances due to foreigners, payable on demand, or at very short notice.

"3. The ready negotiability in a foreign country of a bill of exchange payable in London. This may possibly enable a British [1] buyer to buy foreign goods at a lower price than a buyer in another country.

"The disadvantages are:

"1. The constant disturbance to business caused by rapid fluctuations in the rate of discount.

"2. The opportunity given to foreign speculators to make profit at the expense of traders in this country by manipulating the open gold market.

[1] London bankers have never discriminated against foreigners in favour of British merchants. A foreign buyer can as readily arrange to have his bills drawn on London as the British buyer, and so obtain the same advantages. No one can rightly accuse London bankers of any excess of patriotism!—A. K.

"3. The draining of the savings of the people confided to country bankers in the direction of Lombard Street and thence to the financing of foreign speculators.

"4. The discouraging of what is termed 'the fixing of capital' in this country, which is another term for money sunk in sowing the seed which will spring up for the future benefit of our home industries.

"5. The financial danger to the country of holding upon loan large floating balances payable on demand, or at short notice, to foreigners.

"The advantages and disadvantages of a free gold market may be shortly summed up thus: It gives us facilities for getting into debt, and it places debtors peculiarly at the mercy of creditors."

This letter appears to me to give a fair and complete summary of the whole question. As to the enormous value our banking methods and free gold market have been to foreigners—particularly to the Germans, in creating German industries which have successfully competed with our own, the following extract from Mr. Hartley Withers' *Meaning of Money* will show:

"Foreign financiers were quick to detect the advantages of the English credit system and to turn them to their own profit and to the furtherance of the trade of the countries that they represent. It is often contended that *the rapid expansion of German trade, which pushed itself largely by its elasticity and adaptability to the wishes of its customers, could never*

have been achieved if it had not been assisted by cheap credit furnished in London, by means of which German merchants ousted English manufacturers with offers of long credit facilities to their foreign customers."

Could any indictment of our banking system be stronger than the words I have here italicized?

WAR AND THE BANKERS

CHAPTER VI

(*February* 17*th*, 1916)

WAR AND THE BANKERS

THE present safety and strength of British Banks is due neither to the so-called "gold basis," nor to the ability or honesty of the men who manage them, but to the public belief that underneath the ridiculously small quantity of gold—which is nothing more than a very thin veneer, in comparison with the credit resting on it—rests the national credit comprising the entire wealth of Great Britain. Our legal tender paper money is "as good as gold," not because the Bank of England holds sufficient gold for its redemption—which, of course, it never does, nor anything like sufficient—but because this money is backed by over £18,000,000,000 of wealth of every description!

If Great Britain had been blessed at any

time during the past half-century with a statesman who really understood this subject, and who had had sufficient independence and moral courage, the present system would have been scrapped, and a sound, rational banking system would have replaced it which nothing could shake. What basis for bank credit can be safer or stronger than the national wealth? Which would a foreign Power prefer, the guarantee of a London bank or that of the British Government? How determined British bankers were that the obvious lesson of the 1914 crisis should be construed to their advantage may be seen from the writings of one of their most able apologists, Mr. Hartley Withers. Mr. Withers' book *War and Lombard Street* was published at the end of 1914, and here is his diagnosis of the trouble and the lesson he wishes us to learn. In his preface he says:

"I only produce this brief outline, because there is one good reason for trying to make the meaning of these events clear at once. This is, that they gave a wonderful proof of the enormous strength of England's monetary power, and a full recognition of their strength may be useful now."

In his first chapter (page 3) he says:

"It (the financial crisis of July and August, 1914) was an unpleasant string of surprises, but it was not brought about by any internal weakness in the English banking system. The fury of the tempest was such that no credit system could possibly have stood up against it. In fact, as will be shown, the chief reason for the suddenness and fullness of the blow that fell on London was nothing else but her own overwhelming strength. She was so strong, and so lonely in her strength that her strength overcame her. She held the rest of the world in fee with so mighty a grip that when she said to the rest of the world 'Please pay what you owe me,' the world could only gasp out! But how can I pay you if you don't lend me the wherewithal?"

Curious Reasoning

It is a little difficult to know how to answer such reasoning. Let us examine the author's version of these important events. Financial authorities have been educating the public to believe that the safety of bank credit is due entirely to the fact that it is all redeemable in gold *on demand*. They have also fostered the belief that credit, unsupported by gold, is dangerous. They talk of Germany's "paper money pyramid" as worthless. Naturally, therefore, as soon as the Balkan trouble arose in the summer of 1914, the holders

of cheques, bills, promissory notes and other forms of credit took the bankers at their word and rushed to have these credit instruments redeemed in gold. And the bankers couldn't produce 5 per cent. of the gold needed! The hollow pretence of gold-redemption was at once exposed. Any commercial firm unable to meet its bills of acceptance when due is considered unsound, and is forced into liquidation, and the fact that various sums are due to the firm—but unavailable—is insufficient to save it. Why does not the same rule apply to the banks? Every one knows that the moratorium was a confession of insolvency for the time being and ruin was only avoided through Mr. Lloyd George's prompt assistance in offering the national credit as security, and in issuing an abundance of one pound and ten shilling notes as legal tender—a measure suggested years ago by the late Lord Goschen and vigorously opposed by Lombard Street and Threadneedle Street.

Our banking system is surely reduced to hard straits when excuses, like those made by Mr. Hartley Withers, are offered

as an explanation of the crisis of 1914! Expressed in plain terms, the gist of Mr. Withers' argument is as follows: *Whilst the payment of obligations in gold on demand may be an evidence of financial strength, the inability to do so is an evidence of "overwhelming strength!"* Mr. Withers even intimates that the crisis was due to the "madness or wickedness" of the public in demanding fulfilment of the bankers' obligations!

An Analogy

Supposing the captain of a passenger ship should advise his passengers that in time of danger their only safety lay in each one possessing a ship's life belt, why should he consider it an evidence of their madness or wickedness if during a heavy storm or collision there should be a general rush for life belts? And what would one say, if, when the ship was sinking and the passengers had discovered that there were not enough life belts for even 5 per cent. of those on board, the captain should say to those doomed to be drowned: "My friends, your fate is not due to any 'in-

herent weakness' in our method of safeguarding the lives of those committed to our charge. The truth is, your predicament is a 'wonderful proof' of its 'overwhelming strength.' We have a monopoly of life belts, but we don't happen to have more than a few here. We lend them to other shipowners, and our position is so 'overwhelmingly strong' that we are always lending and consequently we can never keep more than a small percentage for ourselves!"

Can we wonder that the so-called "Gresham Law," which is a complete denial of the law of efficiency, is accepted as a mathematical axiom among men who can reason in the fashion of this financial expert? If our "overwhelming strength" is due to the uncollected amount of gold *owing* to us, what becomes of the much-vaunted "payable on demand" claims? The Gresham Law—which is another of the many economic fallacies found in orthodox financial treatises, and which has done duty for the bankers for several centuries—ought to be given its quietus. Put into plain

English, it means that the only good money is that which the bankers provide or promise to provide. This "law" says, "bad money drives out good money, but good money cannot drive out bad money." The acceptance of this "law" depends entirely upon one's interpretation of the terms "good" and "bad." It was observed centuries ago that where a cheap money (that is, clipped coins, paper money) was circulating freely, any attempt to cause the circulation of gold coins of full weight, failed, because there were always enough smart and tricky people about to melt or clip such "good" coins and make a profit by selling the gold clippings. And naturally if paper was acceptable as currency it was extravagant to use an expensive metal like gold.

THE GRESHAM LAW.

Now the curious thing about this law is, that it is contradictory to all the laws of efficiency, evolution, and common sense. To take one out of thousands of every-day examples: Roofing material formerly con-

sisted of expensive metals, such as lead and copper. This gave place to tiles and slating which were much cheaper and far more sanitary. According to "Gresham's Law," "bad" roofing has driven out "good" roofing. Similarly cheap Bessemer steel has driven out expensive wood, brass, and stone, for thousands of purposes, thereby increasing the safety and comforts of society. In the language of the "Greshamites," this means that "bad" material has driven out the "good." Cheap paper printing and bookbinding have driven out expensive parchment, engrossing and engraving. Hence the "bad" printing press and machinery have driven out the "good" handicraft! In all the ordinary affairs of life we judge of the comparative merits of two things by actual trial, and the one that survives is pronounced the better, that is better for the conditions under which the trial was made. Why should money be any exception to this general rule? If paper money can perform all the functions of a gold currency, why use the expensive metal? As a matter of fact,

to-day, 98 per cent. of our currency *is* paper, and the alleged necessity for gold is a pretence, but it enables the bankers to draw the same interest for the use of paper that they charge for the use of gold. This I believe is the real secret of their insistence on maintaining the so-called "gold basis."

Had Sir Thomas Gresham been born two centuries later, his observations on currency would doubtless have led him to a totally different conclusion from that expressed in the so-called "law" which goes by his name. He would most probably have formulated his conclusions as follows:

"Our greatest philosopher, Sir Isaac Newton, has shown us that the direction of motion is always along the line of least resistance. Applying this truth to the industrial world, to the activities of mankind, we find that men always seek to gratify their wants with the least expenditure of energy. Expressed in economic terms, the tendency of industry and trade is constantly towards cheapness—towards the abolition of value. Under free conditions, therefore, cheap money must neces-

sarily drive out dear money. This follows from the teachings of philosophy and is confirmed by experience and observation." "Cheap" money does not necessarily mean money that is inefficient. Steel is enormously cheaper than gold, but a steel bridge is infinitely safer and better than one of gold. Financial writers—like Withers—who extol our bank cheque currency, are unconsciously denying the validity of the Gresham Law which they profess to uphold. Cheque currency is the cheapest form of money ever known, and has driven out gold currency to an extraordinary extent. And but for our legal tender laws, gold currency would disappear entirely. As long as it performs the function of money, cheap money is the best money, and must of necessity drive out dear money.

Much satisfaction has been enjoyed by our Press over Sir Edward Holden's reply to the bombastic speeches of Herr Helferich, the German Minister of Finance. Sir Edward's reply is said to be "crushing." No doubt our enemy is getting into serious financial difficulties. The mark is

falling rapidly in comparison with the monetary units of neutrals. He may already have had to sell all his investments abroad. He may have to part with all his gold. But, I repeat what I have said in a previous article, so long as our enemy's industrial and productive activities remain unimpaired, so long as he is permitted to exchange his products in sufficient quantities for such material and goods which he cannot produce and which are necessary for his food and manufactures, he cannot be economically destroyed, even if the mark should lose 90 per cent. of its former value! A nation can exist without gold—a metal which, except for use in certain arts such as jewellery and dentistry, is probably the most useless and most readily dispensable we have.

Let us give the Devil his due. Let us reverse the conditions. Supposing Germany had destroyed our Navy and blockaded our coasts, where would our precious banking system be to-day? Where would our pound sterling be? Does any one imagine that our banking system would

have stood the strain that Germany's has without crumpling up? We have seen that before a single shot was fired our system collapsed! Indeed, the London banks depend absolutely upon foreign commerce backed by the credit of a wealthy nation possessing the freedom of the seas, without which our gold supplies could never be renewed. Were our coasts blockaded they would collapse in a week!

A Real Comparison

The real comparison of Germany's banking system with that of Great Britain's is to be found in their relation to the industries of each country respectively. The Germans themselves admit that they owe their unprecedented commercial and industrial development largely to the policy of their bankers. Judged by the highest standard—namely, the development and growth of a nation's industries—it must be admitted that the German system has proved itself to be immeasurably superior to ours. Do our bankers intend to assist British manufacturers to capture German trade in the

future? If they do, they must alter their policy. Which is better for a nation, the possession of great and varied manufactures, of numerous engineering works, shipbuilding yards, electrical undertakings and general industries, or a monopoly of the world's banking business?

How much employment does the latter give in comparison to the former? Would either the United States or Germany be willing to exchange its iron, steel and electrical industries for the whole of our banking business? Is it not better for a nation morally, pecuniarily, physically and socially to be able to employ its people as scientists, agriculturists, mechanics, engineers, chemists, electricians than as bank clerks, chauffeurs, footmen and butlers? I repeat that the thing that matters to us is, whether our industrial and productive activities are to be developed? Are we producing commodities, food, minerals and other necessities as well as manufactured goods in sufficient quantities to meet the public needs, and to meet the national expenses?

The loss of our banking monopoly may injure a few hundred or at most a few thousand people. But our loss of the world's markets in trade and commerce will mean the beginning of the downfall of the British Empire.

THE GOLD FETISH

CHAPTER VII

(*March 2nd,* 1916)

THE GOLD FETISH

THE annual meeting of the Associated Chambers of Commerce will mark an important step in our foreign trade policy. The members of our commercial bodies are fully aroused to the necessity of preparing for the coming trade war which will be waged relentlessly at the conclusion of present hostilities. The most urgent question, however, which will doubtless occupy the attention of these bodies will be the establishment of industrial banks for assisting British merchants in extending their trade and commerce throughout the world. Tariff measures will prove of little avail against the enemy, unless accompanied by a radical change in our banking and financial methods.

Many members of our Chambers of Commerce have written expressing their interest in—and in many cases their agreement with—the articles on the Banking Question in LAND AND WATER. Some correspondents, however, have expressed surprise that they have been devoted principally to a criticism of our existing financial system, whilst little has been said to indicate what system should replace the present one. To such critics it is sufficient to say, that before one can erect a new building on the site of an old one, it is necessary first to clear away all the rubbish and obstructions.

Our banking system, as I have hitherto pointed out, is founded on several glaring fallacies. It is the product of greed, ignorance and superstition. I have already exposed one or two of these fallacies, such as the gold basis fiction, and the so-called Gresham Law, but other errors equally glaring remain to be exposed and eradicated before we can attempt to replace the present institution with a better one.

Fallacious Principles

Already many proposals have been offered to the Government regarding what their authors believe would prove salutary changes in our credit and monetary arrangements, but these proposals are not likely to receive serious consideration by the authorities until the current theories and principles of finance are shown to be fallacious.

The chief object of the writer of these articles is to endeavour to convince the British public not only that the existing financial system is inadequate, dangerous and costly, but that owing to the false teachings of financial writers, the public has been defrauded of the free use of its own credit for industrial and commercial purposes. Since the war started, events have shown that the credit of Great Britain is worth several thousands of millions of pounds sterling. On the other hand, the credit of all the British banking companies combined is only a fraction of that of the British nation. How is it then that the British Government compels the nation to sell its superior credit for bank credit and

pay interest charges for the exchange? That "the whole is greater than a part" is an elementary mathematical axiom. Why does not the axiom hold good in financial matters?

The credit of Great Britain comprises that of all the British people and its institutions. Why then does the Government enter into such an apparently foolish bargain as the exchange of the more valuable credit for the less valuable and pay a premium? The answer is that the gold superstition still dominates the minds, not only of the Government, but of the vast majority of the citizens of this country. The average man still believes that there is some special virtue in gold when used for currency purposes which does not exist in paper. It is the prevalence of this superstition that has cost this country untold millions in interest charges which might have been saved. And just as the poor benighted heathen are victimized by their priests and sorcerers and induced to pay to have their homes freed from imaginary devils and evil spirits, so the average

Britisher has been willing to pay for the use of gold where paper would have answered equally well and would have facilitated his business to precisely the same degree.

The late Chancellor of the Exchequer is reported to have boasted in a recent speech in the House of Commons that every £1 note issued by the Government is redeemable in gold on demand. It is to be hoped the public will not take Mr. McKenna at his word, otherwise we shall have a repetition of the midsummer crisis of 1914. The inference the Chancellor wishes us to draw from his statement is, that our legal tender notes are valuable because they *can be* redeemed in gold. So long as this superstition prevails, so long will our producing classes be taxed for the use of credit and currency, which, under more enlightened conditions, they might have at practically little or nothing save the cost of service plus a small tax for insurance.

Actual Facts

Let us at once face the actual facts. *If*

in the future our currency and credit are to be based on gold, and if they are to be made redeemable in gold on demand, then our industries, our trade and commerce must be restricted. In other words, the limit of enterprise and industry must be the amount of gold that our banks are able to control and are willing to make available, and as for capturing German trade, we may as well abandon all our efforts. On the other hand, if the people of this country hope greatly to increase their trade and commerce, if they have any serious intentions of capturing German trade, the gold basis will have to be abandoned as being insecure and insufficient, and the much safer and broader basis of the national credit will have to replace it.

The statement made by Mr. McKenna regarding the ability of the banks to redeem their obligations in gold has already proved to be incorrect. The real test was made at the end of July and the beginning of August, 1914, and nothing has happened since then to invalidate or alter the result of that test. Of course, what Mr. McKenna means and what the bankers undoubtedly

mean when they speak of "gold redemption" is, that so long as the public is content to take gold in small quantities, the banks are able to perform their obligations. If the question of time be eliminated, any bank might undertake to issue a million pounds of credit on a gold reserve of one hundred pounds. But in financial matters, time is always the essence of the contract. If the public demand gold redemption, they want redemption immediately *on demand* and not some months later—at the banker's convenience.

It would undoubtedly be possible in the course of six months for London Bridge to carry all the traffic that now passes across the Thames in a single month. Supposing during a Zeppelin raid all the Thames bridges were destroyed except one. Naturally the traffic would be seriously disorganized. At the same time, this one remaining bridge would no doubt enable the traffic to continue, although greatly reduced, and at very serious cost and delay to the London merchants and manufacturers. The same is true in regard to the

redemption of credit in gold. In short, *the gold standard and the gold basis mean that trade and commerce must be cut down solely in the interests of the money-lending classes, in order that they may be allowed to continue their control of credit.*

A Serious Indictment

One of the most serious indictments brought gainst the gold basis will be found in a paper [1] read by Sir Edward Holden of the London City and Midland Banking Co. before the Liverpool Bankers' Institute in December, 1907, immediately after the United States currency panic. I cannot do better than reproduce Sir Edward's explanation of the depreciation of securities in gold at that time. His illustrations form one of the most complete exposures of the blighting and depressing effects upon trade and industry exercised by this gold superstition, ever published. Sir Edward illustrated the condition of the banks by a triangle which showed that credit is necessarily restricted by gold regardless of the enormous wealth possessed by the nation

[1] *The Depreciation of Securities in Relation to Gold.*

in other forms. He first states—what is often forgotten—that loans create bank credits, and if we regard all the banks in London as one, the business of banking becomes little more than a matter of book-keeping—the transfer of credit from one person to another. He then proceeds as follows:

"The right side of the triangle represents the loans of the whole of the banks, and the left side represents the cash balance or reserve. If, then, you draw a line from the left of the base and equal to the base, you get the cash credits in existence. If the loans and credits as represented by the two sides of the triangle were the only two elements which bankers had to take into consideration, then there would be no necessity for them to restrict their loans at all, and traders could increase their business and obtain loans *ad libitum*. But there is another element, and a most important one, to be taken into consideration, and it is the fact that all the credits as represented by the left side of the triangle and the line drawn from the base, are practically payable on demand and in gold, assuming of course, that Bank of England notes represent gold.

"Every banker must, therefore, make up his mind by what amounts his credits are liable to be diminished, both in ordinary and extraordinary times, and when he has thus made up his mind, he ought to keep that amount of available resources in gold, or as a means of obtaining gold. Let us consider, then, that the base of the triangle consists of gold, and it is the ratio of the base of the triangle to the total credits (both created and cash credits) which restrict bankers

from increasing unduly their loans. If business increases unduly, and if bankers continue to increase the loan side of the triangle, of course concurrently increasing their credits, and not being able to increase the gold base of the triangle, then evidently they are getting into danger, and the only judicious course which they can pursue is to curtail their loans, curtailing an undue increase of business, which curtails the credits, and thus re-establish the ratio.

"You here see the direct connexion between trade on the one hand and gold on the other, and that it is not so much the production of gold as the amount of gold which can be obtained for the purpose of increasing the bankers' reserves. I venture to think that the above explanation will enable you to come to the conclusion that, if the gold base of the triangle cannot be increased, then the danger spot is the LOAN.

"I want you to remember that the banking system of every country has its triangles, and that the principles enunciated above exist in every triangle of every banking system based on gold in the world; that being so, it is clear, generally speaking, that the business of the world is carried on by means of loans, that loans create credits, that the stand-by for the protection of credits is gold, and that therefore gold controls trade.

"It may happen that the trade of one country grows by leaps and bounds, the loans and credits, of course, following, while the trade of other countries remains normal. What, then, takes place? The gold base of the triangle of the former becomes too small, and it is necessary to enlarge it. How is the increase effected? It is effected by the representative bank of the more prosperous country attacking the gold basis of the triangle of other countries, and the instrument by which the attack is made is the rate of discount. By this means gold will be attracted from the bases of the triangles of other countries, and unless those bases are too great for

the adequate protection of the credits, the representative banks of those countries will meet the attack by also putting up their rates. But it may happen that the trade of every country has increased by leaps and bounds, and that all loans and credits have also increased. Then the fight begins by every country putting up its rate, first to prevent its base being diminished, and, secondly, to increase it if possible."

Let us clearly understand the meaning of this very lucid and truthful illustration. Our producing classes are being urged to do their best to capture German trade. Now, no extension of trade is possible under present conditions except through the increase of bank loans. Supposing that these loans are granted and the enterprise, skill, and industry of our people are rewarded by a great increase in trade. What certainty have they that they will be permitted to keep this trade? And what is to limit this trade increase?

The answers are (1) that since trade depends upon the credit allowed by the banks, which in turn depends upon the amount of the gold reserves, there is absolutely no certainty. (2) That the limit is gauged neither by the enterprise of our people nor the extent of the markets open

for British goods, but by the same accidents, events and conditions which make all our industrial operations so uncertain, viz., the imports and exports of gold. Now London is the only free gold market in the world. Supposing therefore that after the war, Germany or the United States, or both, determine to wage a relentless commercial war for the world's markets. Not only will they attack by endeavouring to undersell us, but they will try to cripple us in our most vulnerable spot: viz., our gold market. By withdrawing gold from London they can compel our banks to reduce their loans to British merchants, and our efforts at capturing German trade will be fruitless. And the only weapon of self-defence our bankers control is the bank rate!

If we apply Sir Edward Holden's conclusions to the figure of an inverted pyramid, we shall see at a glance how the movements of gold affect our trade and commerce. We have as before a comparatively small amount of gold supporting an enormous volume of credit, bank loans,

etc., on which rests the vast business interests of the nation. Now this volume of credit is supposed to bear a certain relation to the gold reserves held by the banks. Exactly what this is, the public can never tell, for the reason that only two banks in London publish their gold holdings, viz., the Bank of England and the London City and Midland Bank, of which Sir Edward Holden is its very able chairman and managing director.

Of course, this relation necessarily varies from time to time, but no banker would go on indefinitely increasing his loans without increasing his gold reserves. And, vice versa, if his gold reserves are shrinking the prudent banker will necessarily be compelled to call in that proportion of his loans corresponding to the reduction in his reserves. Now the ratio of gold to bank credit in practice is supposed to vary from 10 to 20 per cent. Supposing our foreign competitors succeeded in withdrawing £5,000,000 in gold from the Bank of England. The bank loans must be reduced to the extent of £25,000,000 to

£50,000,000 to preserve the previously existing ratio. And by withdrawing this credit, of course the trade and commerce dependent on such loans are destroyed.

Sir Edward Holden's Liverpool address was a very frank admission that the gold basis—together with our free gold market—places British trade and industry at the mercy, not only of our trade competitors, but of the bullion dealers and speculators of the world! His illustrations show that any long-continued period of industrial prosperity is made impossible by the restrictions imposed by the gold-redemption system. He further shows (no doubt unconsciously) that the gold basis is a brake upon the wheels of industry, continually interfering with the rate of production. Here also is the explanation of the phenomenon that periods of prosperity are inevitably followed by periods of depression.

Increased trade demands increased banking facilities—increased loans—but the moment credit is increased to meet this demand, the gold reserves are strained,

the bank rate is raised, loans are called in, the brake is applied to the wheels of industry, production is checked, employees are discharged, enterprise is discouraged, and the extra demand for money and credit, which prosperous times require, is choked off !

In short, our financial system destroys prosperity, and reduces trade to the amount of gold available. So that the mechanism of exchange, instead of facilitating trade at all times, actually checks it. It first stimulates industry, and then destroys it. The gold basis has become both the life and death of trade.

INADEQUACY OF OUR BANKS

CHAPTER VIII

(*March* 16*th*, 1916)

INADEQUACY OF OUR BANKS

For many years past British manufacturers and merchants have complained of the difficulty of obtaining adequate banking facilities and of the unreasonable objections made by their bankers to affording them the accommodation their businesses required. These complaints have become much more frequent and general since the London Joint Stock banks invaded the provinces in such force, and began their policy of absorbing the private country banks—a policy which has proceeded at an accelerating speed of late, until to-day very few of the old private banks remain. Without doubt, this policy has been productive of great injury to the nation and great hardship to hundreds of small producers throughout Great Britain.

These country banks were the mainstay of thousands of industries, and they were conducted on a far more liberal and patriotic scale than the London Joint Stock banks. The country banker knew all his clients personally, and was usually familiar with their family history. He knew whom to trust. He could easily distinguish between the thrifty, industrious, enterprising man and the extravagant, lazy and unprogressive individual. The country banker was usually a leader in social affairs in his own town or district, and took a personal pride and interest in assisting in the development of its industries. Whilst he was, perhaps, as keen to make large profits as the London bankers, his desire was tempered by a sort of civic pride. It was very gratifying to him to feel he was helping his neighbours and fellow-townsmen, which ensured him their esteem and gratitude. The demands of borrowers in London or abroad were not likely to induce him to forget those of his own townspeople. In short, he usually had a large amount of local as well as national patriotism.

Sympathy and Mutual Help

Those who have read Prince Kropotkin's great work, *Mutual Aid*, will remember what an immense factor sympathy, leading to mutual help, has been in the development of animal life. Sympathy has been a similarly valuable factor in the development of industrial and commercial affairs. This factor was present, influencing the conduct of the private banker. With the advent of the soulless Joint Stock Company principle, this factor was utterly destroyed.

The country banker frequently became a shareholder in his town's local enterprises. All this greatly contributed to the upbuilding and development of Britain's industries. I have been told by many of the farmers and country tradesmen how comparatively easy it was for them to get financial help from their private bankers thirty or forty years ago. With the establishment of the London Companies' country branches, all this is now changed. In place of the local banker with his wealth, power, local pride, knowledge and sym-

pathy, we have a manager who is usually a stranger, and who knows little or nothing of the townspeople themselves, who is usually without any social or political standing, and is powerless to grant any considerable banking facilities without the consent of his London board of directors. His instructions are to secure all the deposit accounts possible and send as much currency as he can to London. If it were possible for a country manager to acquire country deposits without having to grant loans, the London banks would regard this as an ideal condition.

Just as in the United States the great bankers of New York and Chicago have always endeavoured to denude the States of cash in order to amass and control it in their own cities, so the London banks have tried to keep the stream of currency always flowing in their direction. When it is considered that this policy of denuding the country districts of money is often for the purpose of enabling the London banks to grant loans to foreigners who are interested in building up industries abroad which

successfully compete with our own, the irony of the situation becomes apparent! From the national and patriotic standpoint what can be more amazing than the knowledge that the savings of the British public are being employed directly to cripple them in their own trade and industries? In a former article I quoted from a well-known financial writer a statement showing the valuable assistance the London banks have given to the Germans in building up their vast businesses. This policy has been for this country ruinous in the extreme. Although it has probably helped to increase the banks' dividends, it has blasted scores of British industries.

Risk of a Monopoly

The continual absorption of the smaller banking companies by the large ones, indicates that within a comparatively short space of time the entire banking business of Great Britain will be under the complete control of one board of directors. This is a national danger which should be prevented at all hazards. It would constitute

a monopoly as far reaching and as inimical to the public interests as that which was exposed in the United States by a Congressional Committee a few years ago.

The monopoly of money is the greatest of all monopolies, for it controls all others! It gives its controllers supreme power over production, trade and commerce—nay, over life itself! Under modern conditions money has been made indispensable to every one. Such a monopoly ought to be permitted to no one company or aggregation of companies. In the United States, its effects have been shown in the corruption of political life, and in the omnipotence it gives to men like the late Pierpont Morgan, who was able to possess himself of almost any branch of industry he desired. The career of almost every one in America was at his mercy. He could make and unmake whom he chose, and woe to the man who opposed him! His power far exceeded that of the President of the United States himself.

If such a monopoly must exist, let it be

owned by the nation. Here is a legitimate field for democratic control. For, *even in the hands of the State, a banking monopoly may be a source of infinite harm to the public, unless it is properly and impartially conducted for the interests of all classes alike. Honestly and efficiently conducted, it would prove one of the greatest institutions for the development of trade, for effecting a more equitable condition between capital and labour, for improving social conditions and providing an inexhaustible revenue for the State.*

The policy hitherto pursued by our Joint Stock banks has been to give facilities to the strong and deny it to the weak. Evidently they believe in the saying: "Unto him that hath shall be given, but from him that hath not shall be taken away even that which he hath." The object of this policy is to lend to those only who are able to repay immediately on demand. Hence the speculator, the Stock Exchange gambler, can get accommodation where the producer would be denied.

The Policy Hitherto

I have known a manufacturer who, having sunk his capital in plant, machinery, and tools for producing necessary and useful articles, was unable to proceed for lack of banking accommodation which was refused him on the ground that machinery and tools are not considered banking security. Had this man bought shares and tried his luck as a gambler, he might have secured banking facilities to his heart's content. A system which discriminates against the production of wealth in favour of gambling pure and simple, is neither morally nor economically beneficial to any country.

Let it be admitted at once that this feature is not altogether the fault of the bankers themselves. It is the natural and combined results of the Legal Tender Acts and the deposit system under which the banks are compelled to agree to pay depositors their claims on demand in legal tender. Consequently it would be courting bankruptcy for the bankers to lock up all the money belonging to their de-

positors in investments they are unable to quickly realize. Hence, preference is given to short-time loans on gilt-edged security. And this class of loan—although suitable to speculators and dealers—is unsuitable to the producing classes. The farmer who needs money to buy his seeds and fertilizers and agricultural machinery, cannot undertake to repay the loan until he has sold his crops. A period of months and even years must sometimes intervene. What use is it to offer him a sum of money if there is the remotest prospect of the loan being called in, a few weeks or months later? This would simply mean ruin to him. The banker would have to sell the farm in order to realize the amount of the loan.

A Well-known Financial Game

This practice is, however, a well-known financial game which is frequently played by unscrupulous moneylenders, and even by many who pose as capitalists. How many inventors, manufacturers and merchants have been swindled out of their

life's earnings by financial vampires who have advanced money on debentures, mortgages or promissory notes, and then swooped down on their luckless victims at a time when they knew that these were unable to repay the money! Legal Tender Acts may possibly have been intended by their framers to facilitate trade and to ensure equitable dealings between man and man. But they have often been used as instruments of the grossest frauds and the cruellest oppression, enabling the financially strong to rob and terrorize over the financially weak.

The history of finance is strewn with the wreckage of myriads who have been broken by these merciless laws, which prescribe the particular instruments with which debts must be settled, without having made an adequate provision for a sufficient supply of these instruments. The Governments responsible for these Legal Tender Acts do not appear to have given much consideration to this phase of the subject. Our currency legislators seem to have been haunted with the fear of making

money cheap. So they made the conditions for its creation as difficult as possible, and chose as the money-metal one of the rarest and most expensive, leaving the public to the tender mercies of the few privileged persons who happened to control its supply.

For the development of a nation's industries, deposit banking is insufficient. Long-time loans, so essential to those engaged in starting and building up their enterprises, are unsuited to those entrusted with money returnable on call. Further, the rigidity of the system under which legal tender could be created prior to the war, made long-time loans a somewhat dangerous enterprise for the banker. Any increase in the volume of legal tender notes beyond the normal amount, had to be accompanied by a corresponding increase in the gold reserves—often a difficult and always an expensive proceeding.

Germany's more Elastic System

It is in this particular respect that the German system has proved itself far more

elastic and suitable for industrial growth than the English system. Notes issued by the German Reichsbank required only one-third of their nominal value in gold and two-thirds in bills, the result being that, as the necessities of trade expanded, the means for supplying those necessities grew with them, since the security for the notes was furnished by the industries in the form of bills of exchange. The increase of the volume of uncovered notes is also permitted on payment to the Imperial Government of 5 per cent. on all such excess amounts. The result is, the German bankers have had at their command sufficient credit to back German trade and commerce to the fullest extent without running into very great danger. An industry that could earn more than 5 per cent. on any additional capital required could, other things being satisfactory, readily secure financial support.

With a million marks of gold reserves, the German Reichsbank could issue three million of legal tender notes, and on this the bank could issue twelve million marks

of bank credit, whereas under our system only one million of legal tender notes could be issued against one million of gold reserves. And with an issue of four million of bank credit the position of our banks would be no safer than the German bank with its issue of twelve millions! For the real basis of credit, in times of crises particularly, is legal tender based on the national credit, and the public is satisfied with paper money provided they know it is legal tender for all debts, public and private.

Consider the present position of the small producer who is anxious to develop his business. He has no gilt-edged security to offer his banker, and therefore cannot get the accommodation he requires. His only alternative is the private moneylender or promoter, to whom as security he must deliver up practically his soul. The moneylender points out the great risk he is running and makes his interest charges correspondingly high. After a few months, or perhaps years, of struggle, during which the producer has been handicapped by the

burdensome interest charges, the lender falls on him and cleans him out of all he possesses. If it be the promoter who helps him, it generally ends the same way—i.e., in the promoter possessing himself of the business.

Now it is this class of producer, one of the most useful in the country, for whom no financial provision has yet been made. Our laws have placed him between the devil and the deep sea! The German Government, quicker and more intelligent in industrial and commercial matters than the British Government (and although autocratic, far more in touch with the wants of the producing classes than ours), has made provision for theirs, and Germany has been reaping a rich harvest almost entirely through such financial provision.

As I said previously, the main cause of the inadequacy of our banking system for commercial and industrial needs, is our stupid Bank Charter Act, which should be repealed. It has placed our banking system in a strait-jacket, and it can only

expand in one direction—namely, by increasing the volume of bank credit, without necessarily increasing the base upon which it rests.

TOWARDS A BETTER BANKING SYSTEM

CHAPTER IX

(*March* 30*th*, 1916)

TOWARDS A BETTER BANKING SYSTEM

In the course of these articles on Finance, I have endeavoured to point out the evils of our present banking system and their causes. These evils may be briefly summarized as follows:

(1) There is an insufficiency and an uncertainty of credit facilities, both as to time and amount, for the proper and continuous development of our industries.

(2) Owing to its unnecessary exposure to foreign influences, our credit market is extremely sensitive and unreliable, which results in our being afflicted with the most variable bank rate in the world.

(3) Our bank credit is in constant danger of a collapse due to the export of gold—which has been made the legal basis of credit. And the collapse of credit involves the annihilation of trade.

(4) British bank credit has become practically a monopoly of the London Joint Stock banks due to their control of the Clearing House. This monopoly gives bank directors a power and influence over British industries which they ought not to possess. With the constant amalgamation of our banks, this power is falling into the grasp of fewer and fewer hands.

(5) The rate charged for loans is unnecessarily high.

Antiquated Banking Laws

I have shown that these evils are the natural result of our antiquated currency and banking laws which have imposed unreasonable restrictions, compelling the banks to base all their transactions on gold. Where the bankers have been to blame is, first, in resisting every proposal for altering and improving the present system, and secondly, in supporting foreign loans, often in disregard of the needs of British traders, whose interests have been frequently sacrificed on behalf of the foreign trade competitor. No doubt they have had good

reasons for pursuing such a policy. Consequently when the foreigner offers 7 per cent. or 8 per cent. for money where the British trader can only offer 4 per cent. or 5 per cent., they are apt to close with the foreigner. *But think of the stupidity and shortsightedness of British statesmanship that enacts laws making the nation's trade and industries subject to the cupidity or caprice of the professional credit dealers!* And when at the end of each year the directors of our banks are able to pay their fortunate shareholders from 12 per cent. to 22 per cent. dividends, they are compelled to agree with Pippa that "God's in his heaven, and all's right with the world."

Now although we have still several obstructions to remove before the ground is cleared for a better system—one remaining obstruction being the "gold standard"[1] which is the most difficult of all—it is possible to give the reader a sketch of one or more of several better financial systems than our present one. Any proposed sub-

[1] I am dealing with this subject in a separate volume entitled *A Fraudulent Standard.*—AUTHOR.

stitutes for the present system must be free from the evils enumerated.

An industrial banking system built on sound principles should (1) afford ample credit facilities for every member of the commercial and industrial classes for carrying on to the extent of his capital; (2) grant loans for a sufficient time to enable each one properly to develop his business under normal conditions and repay the loan out of his annual revenue; (3) furnish loans on all forms of productive capital without discrimination, but within a predetermined margin of safety; (4) fix the charge for the loan on the basis of cost of service plus insurance against bad debts.

Just here let me point out that in spite of all our improvements in machinery, by which the supplies of commodities of every description have been enormously increased and cheapened, in spite of the vast increase in the production of the precious metals as well as the marvellous economies in their use for legal tender purposes through the general introduction of the inexpensive cheque system, the price of the loan—the

rate of interest—has not been permanently reduced a fraction of 1 per cent. since the enactment of the Bank Charter Act.

Now we have already seen from Sir Edward Holden's illustration (see pages 113 and 114) why it is impossible under our present laws for the banks to furnish loans to all applicants owning capital. Bank loans are limited by the amount of the gold reserves—not by the amount of securities offered. And the constant variations in the volume of these reserves due to the imports and exports of gold, create similar variations in the amount of legal tender with which credit is made redeemable.

Needs of Trade

The establishment of a banking system capable of supplying the needs of trade fully and satisfactorily, as outlined, is therefore impossible under our present laws. If our trade could be cut down to a fraction of what it now is, so that the amount of credit required was commensurable with the gold and cash reserves held by the banks, we should then have a condition

which no doubt would have been regarded as ideal—by Sir Robert Peel—where every pound of bank credit and every legal-tender note was redeemable in gold on demand. Whilst this would provide no doubt for the *quality* of the credit, it makes no provision for the necessary *quantity*. In this respect money and credit are like food, clothing and necessities. It is sometimes necessary to sacrifice quality for quantity. A thing may be too good, too expensive for practical needs. We cannot all afford the luxury of brioche, nor can we supply silks and seal-skins for our entire population, and yet we must all eat and wear clothing.

On what basis then should bank credit be issued? If gold is so expensive, so unreliable and so inadequate, with what must it be replaced? The answer is with that which has already replaced it in a large measure since the war started, and which invariably takes its place in all serious national crises, viz., *the national credit.* To-day we are using one pound and ten shilling currency notes, which are legal tender for any amount. These notes are

not based on gold, but on the national credit. Since they were first issued they have performed all the functions of money with the same facility as the golden sovereigns and ten shilling pieces which disappeared soon after the war began. They are safer and more reliable than gold coins since they are not likely to be exported. *In every great national crisis universally the Governments of the world have always fallen back on their national credit expressed in the form of paper money. Neither gold nor silver bullets have ever proved so effective as paper bullets.* Surely if a financial system is sufficiently strong to weather a great crisis such as the United States went through in her Civil War, it is good enough in times of peace.

The National Credit.

Now the national credit is based upon all the wealth and all the productive capacity of the inhabitants of these islands. It includes the credit of all the banks. It is not based upon one comparatively insignificant metal—gold—but upon every

commodity including gold, upon all that is comprised within the British Isles and its wealth beyond the seas. Moreover this credit is not the property of any one class or section of the community. It exists because of the enterprise and labour of all British citizens, past and present. It is as solid as anything earthly can possibly be made. Why then should our statesmen hesitate to employ it as the basis for legal tender and bank credit for the benefit of the entire nation, instead of lending it as a source of profit to a small and privileged class ? Above all, why does the Government dishonour the national credit by pawning it for bank credit, which is inferior in quality ? But more of this later. The fact is that the financial question opens up so many others, such as taxation, foreign trade, commercial union with the Dominions, etc., as often to tempt one to pursue this immense subject in all of its different phases.

I suggest therefore that the basis for bank credit should be the national credit. Legal-tender notes should be issued under

proper regulations to the limit of meeting the demands of trade. I may add, in passing, that the root of all our currency and banking troubles exists in the popular superstition surrounding the so-called gold standard—the *pons asinorum* of Finance—which covers one of the greatest economic fallacies ever taught.

Neither currency nor credit require any metallic base. Values are ideal creations—not concrete magnitudes—and can be expressed only in terms of the ideal. Now the required financial conditions may be obtained in several ways. They may be attained (1) by a system of Mutual Banking, (2) by Free Competitive Banking, or (3) by a system of National Banking. Our present system is neither National, Competitive nor Mutual. Like many other of our mediaeval institutions—the legal profession, for example—banking is a highly protected guild constituting a private legalized monopoly.

An Astonishing Feature

One of the most astonishing features of

our commercial history is the failure of our commercial and industrial classes to seize and control the banking business as a necessary branch of trade. The entire business and stock-in-trade of the banks is furnished by the trading classes, and instead of forming a mutual banking system under their own control and operated for industrial needs, they have allowed a professional class to secure control and run it for their own profit, until to-day the tail wags the dog, and instead of our industries controlling credit, credit dealers dominate our industries.

Mutual banking is a system whereby banking facilities are furnished to all the members of the bank at a rate sufficient to cover expenses and insurance. Any one can become a member who owns capital and bears a good reputation. Credit accounts are opened and advances made after careful investigation of the value of the securities and the character of the applicant. The bank officers are elected by the members annually, and the bank is controlled by a committee similarly elected.

The object of mutual banking is to furnish cheap banking facilities, not to make profits. Its success naturally depends upon the number and importance of its members.

In regard to legal currency. This might be obtained at present by the purchase of Government bonds, which the Government would exchange for their face value in legal-tender notes. Now supposing all classes could be induced to patronize such a bank. It is evident that very little legal tender would be required. Long ago it was pointed out by John Stuart Mill that if every business man could be induced to open his account with one central London bank, all business beginning and ending in London could be transacted without the use of cash, except that required for wages, small payments and purchases. All payments could be made by cheque, and the settlement of accounts would consist merely of the transfer of credit from one person's account to that of another. If all the banks of Great Britain were amalgamated, it would effect the greatest economy in the use of money (that is, legal tender) ever

achieved. It is knowledge of this fact that is forcing the union of so many banking firms, because it reduces costs, economizes cash, reduces the amount of gold reserves necessary, and increases bank profits.

If all the business firms and members of the trading classes in this country agreed to organize a central Mutual Bank, with branches in every town, on the lines suggested, they would not only be able to provide a safe and satisfactory financial system for supporting the trade and enterprises of Great Britain, but they would effect a saving of tens of millions of pounds annually! *It has been estimated that under such a system, credit could be supplied at the rate of* 1 *per cent. per annum, after allowing for all charges, expenses, and insurance against losses.*

Free competitive banking has never existed in this country. Most people believe that the various Joint Stock banks are fierce competitors with each other. And within certain limits this is true. But the door is closed against the addition of

any new banking company by means of their control of the Clearing House.

The Clearing House

The Clearing House is most vital to the banking business. It is where the daily balances due by one bank to another are ascertained and settled. Refusal by the Clearing House authorities to clear the cheques of any banking company would put it out of business. If, however, the Clearing Houses were nationalized and free banking permitted with the right of every bank to use the Clearing Houses, such a system of competition would undoubtedly tend to the evolution of a better and cheaper service than has ever yet been discovered.

Naturally the Government would have to enact rules and restrictions under which banks could be formed and operated. In this case, also, the national credit could form the basis of bank credit by the purchase of Government bonds convertible on demand in legal-tender notes. Here, let me say that at present I am dealing exclu-

sively with a banking system suitable for our home trade and industries. I am aware that a somewhat different arrangement is necessary for carrying on our foreign trade. At present the popular opinion seems to be in favour of the creation of a National Banking System, which could be effected by the purchase by the nation of the Bank of England, together with the Joint Stock Banking Companies of London, including those in the provinces, Scotland, Ireland, and Wales. Such a scheme is quite feasible, and would prove a paying investment for the nation. It would involve a sum quite moderate in comparison with the amounts we have recently become accustomed to in connexion with the war.

Naturally the credit of the nation could be better organized and supplied to the people through a properly established State department than by any other means, provided, of course, that such a department was officered by the right men. In this, as in all other Governmental departments, the success of an institution depends on the ability and honesty of those who administer it.

TREASURY NOTES

CHAPTER X

(*August 3rd,* 1916)

TREASURY NOTES: THEIR PRESENT ADVANTAGE AND PERMANENT VALUE

THAT saving quality of the British race known as *adaptability*—which has become our proverbial characteristic—may be regarded both as a national blessing and a national curse. Its influence has made us the hope as well as the despair of our Allies. Whilst it has made us the greatest colonizing people in history, it has also made us the most unprepared and ill-equipped nation for meeting emergencies. Conscious of the fact that we are capable of quickly improvising plans and methods enabling us to meet new conditions, we instinctively postpone even the discussion of dangers until the dreaded events are actually happening.

This habit of procrastination has made

us a byword among the nations for sloth and improvidence. And one can almost sympathize with the Germans in their cry of "hypocrisy" on their finding this apparently unmilitary, decadent, pacific, indolent race suddenly converting itself into a military power of the highest order, far more capable of heroic deeds and posessing greater martial ardour than themselves! Had the Germans understood the psychology of the British people as they understand themselves, they could not have fallen into such a fatal error as to suppose us incapable of what we are now achieving. A future writer might be justified in characterizing us as a race of "Houdinis." As all the world probably knows, Houdini is the man who allows himself to be bound with ropes and tied in a sack or nailed in a box and thrown into the sea, and within the space of a few minutes he is seen calmly swimming to shore as though nothing unusual had happened. The British nation apparently loves to show its skill in surmounting obstacles and getting safely out of tight corners.

By all the rules of warfare and common sense our Expeditionary Force should have been annihilated in the first two or three days of the war. To-day—two years after the beginning of hostilities—we are attacking the enemy in superior numbers and with superior weapons. Two years ago our army was numerically inferior to that of Serbia or Greece, whilst our munition works compared to those of Germany were absolutely insignificant. At the end of those two years we find ourselves as well equipped as Germany was after forty years' preparation !

Our Currency System

Take again our currency and banking systems. When war broke out we found ourselves bound hand and foot by a ridiculous restrictive parliamentary Act which forbade the Bank of England to issue legal-tender notes without an equivalent of gold reserves. The gold had vanished—much of it to Germany—through the lack of foresight on the part of our Government, and the operation of the Bank Charter Act.

And it was impossible to secure supplies from abroad in time to save the country from an impending catastrophe. The credit system built up under this suicidal measure collapsed—as every intelligent writer predicted it would—as soon as a great crisis was in sight. The nation was brought face to face with a panic of unprecedented magnitude. In any other country panic must have ensued.

A meeting of the bankers was called at the Bank of England and a three days' holiday proclaimed during which a safe and simple remedy was devised by one of our greatest bankers, and within twenty-four hours the whole situation was changed. What threatened to be a terrible financial storm became a dead calm. Treasury notes were issued in denominations of one pound and ten shillings to the extent of the country's needs. Sovereigns and ten shilling pieces were gradually called in, and the people hitherto accustomed only to gold and silver coin—nay, even taught by foolish financial writers to regard paper money as dangerous and unreliable—imme-

diately adapted itself to the new circumstances.

The credit of the British nation—unsurpassed in the commercial history of nations—has taken the place of gold since August, 1914, and circulates without let or hindrance from one end of the country to the other. Confidence was immediately restored, and as far as financial accommodation is concerned, no one would imagine we were in the midst of the greatest war in history. So much for our adaptability!

Time to Learn a Lesson

But it is surely time to learn a lesson. Adaptability is a good quality, but like a good memory it may some day fail us, and then will come the deluge. Having successfully avoided the financial storm to which wars give rise, it is time to consider what is to happen after peace is declared. The issue of Treasury notes was distinctly a war measure. There are at present something like £120,000,000 of these notes in circulation, and the Treasury holds

£28,000,000 in gold as a sort of basis for them. Already there are indications that efforts will be made in certain circles to get rid of them when the war is over.

The public will be told that having served their purpose during the war, as soon as the crisis is over they will be no longer needed. *This movement which, if successful, would deprive our industrial and trading classes of this most efficient and absolutely safe medium of exchange, and would make money much dearer, should be resisted by every one who wishes to save the country from the horrors of trade depression and unemployment.* Under the plausible excuse of desiring to reduce prices, certain money-trading concerns are already pointing to the Treasury notes as the main cause of the high prices prevailing. Their real motive is to reduce the supply of legal tender in order to raise the purchasing power of gold. It should be remembered that a general fall in prices means a relative shortage of money, and a consequent falling off in the effective demand for commodities. And this means a slackening of

production, reduction of wages, unemployment, sometimes ending in industrial stagnation.

There are infinitely greater evils than high prices. In fact a high level of prices is the usual accompaniment of industrial prosperity—except in cases where the supplies of commodities are either cut off as the result of war (as is the case in Germany and Austria) or the consequence of famine, from natural causes. But where—as in America—trade and industries are flourishing as they have never flourished before, prices are abnormally high. *Money is the mechanism of exchange. To reduce suddenly its volume below that necessary for carrying on business is to create every kind of economic disaster, bankruptcy, starvation, and ruin!* It will be found that every attempt in the past to do what some of our financiers are already suggesting we should do after the war, has been attended invariably by commercial, industrial and social distress in the acutest form. What our Cobdenites have christened the "hungry 'forties," was a period of severe mone-

tary restriction, and the social miseries endured by millions of our people were due as much to the unfortunate financial policy inaugurated by our legislators (whose knowledge of monetary science was absolutely mediaeval) as to the Corn Laws.

Again, when, through the instigation of certain international financiers, the United States Government was induced to destroy millions of greenbacks which had carried them safely through their Civil War, America paid the inevitable penalty of an industrial crisis with all its accompanying social horrors.

With the return of our armies, the problem of productive employment will become a very serious one, and all our financial resources and facilities will be taxed to the utmost. Are we to throw away the most important national credit instrument we possess at the bidding of certain money-traders whose object is to enhance the value of their own commodities—gold and credit? It is surely of infinitely greater importance to ensure employment and consequent food, shelter,

and comfort to all—even at high prices—than to risk industrial stagnation! Let me say at once, that our most progressive bankers are opposed to this wanton destruction. The movement is confined to a very small, although a very influential clique. But the leaders of our great Joint Stock banks, the majority of those who are conversant with the commercial needs of the nation, desire to preserve these notes. What they wish to see, however, is an absolutely solid gold backing to the entire Treasury issue. They realize that £100,000,000 or £120,000,000 of ten shillings and one pound notes are essential for the country's needs, but they are anxious that the Government should create a Treasury reserve equal in amount to the face value of the notes issued.

Now, experience has demonstrated beyond any question, that for the purpose of our Home trade, Treasury notes, whether backed by gold or not, are readily accepted, and they facilitate trade quite as well as sovereigns and half sovereigns, and with far less cost to the nation. But our com-

mercial dealings with foreign countries are necessarily based upon gold—the international commodity for settling trade balances. And at present we are entirely dependent for our gold supplies upon a private trading company, viz., the Bank of England, whose interests are not always in harmony with those of the trading community. The Great War has shown the importance of maintaining a war chest.

By securing a Treasury gold reserve of £100,000,000 or more, as a basis for the notes, the Government would be able to satisfy all parties, except the contractionists whose interests are opposed to those of the nation. Those who are superstitious enough to believe gold of more value than the national credit based upon the productive energies and capacities of the British nation, would have their present fears allayed. Those who recognize the enormous help to trade which these notes have been, will admit that they lose nothing by the addition of so much gold. *But above all, the use of the national credit as*

legal tender takes the nation's industries to a large extent out of control of the manipulators of specie, whose policy has been a brake upon the wheels of industry for the past century. In establishing such a national gold reserve, safeguards should be provided to prevent cosmopolitan financiers from manipulating these reserves for their own interests.

The truth is that for our home trade, gold is entirely unnecessary. It is only abroad, where our legal tender laws have no effect, that Treasury notes would fail to circulate, and hence gold becomes a necessity. But it is precisely the fact that our legal tender notes would *not* circulate abroad, that makes them far preferable for our national currency than gold. *Our manufacturing and commercial interests demand a currency that can be relied upon, which will stay at home and not travel abroad and can be obtained when it is needed. They demand a uniform bank rate and not one that is constantly oscillating like a pump handle.* Under the Bank Charter Act our bank rate has been the most variable of any in the

world. And this variability is the price we have had to pay for using as legal tender a metal that our laws have deliberately made so enticing to foreigners as to impel them to ship it abroad and restrict our banking facilities.

Our Treasury notes tend to reduce these evils considerably. Moreover they tend to broaden the basis upon which our bank credit is issued, and permit our bankers to increase their facilities with far less risk than heretofore. There is therefore every reason in favour of continuing these notes after the war, and not a single valid excuse for destroying them.

Since the above article was published the Great War Loan—the greatest in history—has been successfully floated. I am dealing with this subject in a special work entitled *A Fraudulent Standard.* I venture to say that the financial methods under which this loan has been subscribed, with the humiliating Press advertisements and appeals to citizens to invest because " Germany is watching," the stupendous and

unnecessary burdens created, which must be shouldered by this and future generations in the shape of interest charges—to say nothing of the millions of pounds squandered in advertising and collecting subscriptions—I say that the future victims of this "frenzied finance" will regard this war loan as the greatest monument to British financial lunacy that has ever been raised! To explain this remarkable operation in a few words, what has happened is this: The Government have contracted to pay first a bonus of 5 per cent. and second an annuity of 5 per cent. to every subscriber for contributing towards a sum of credit which the Government already controlled, and which could have been made effective by the mere stroke of a pen, if the Government had been properly advised. Subscribers have merely contributed their cheque pounds, which is nothing more than bank credit. But the Government controls the whole of the national credit, which embraces all our private and bank credit. Hence we are treated to the spectacle of a Government exchanging the

superior credit of the nation for the inferior credit of the individual and selling it actually at a discount! Could imbecility go farther? Moreover, the Government could have employed the national credit without involving the taxpayers in a shilling of interest or advertising charges. At the end of twenty years the nation will have paid the entire amount of the war loans in interest charges alone, without reducing the original debt by one penny! But this is not the worst. The loan has been subscribed in cheap credit pounds, and neither in gold pounds nor even in Treasury note pounds! In what kind of pounds will our future Governments redeem this enormous debt? In what kind of pounds will they pay the interest? By destroying the Treasury notes after the war, the money and credit dealing classes can double the National Debt through the rise in the value of the "pound" which would follow! This trick has been played after most of the great wars of the past. It was played on the American public after their Civil War, with the result that the American producing

classes were compelled to pay the cost of that war five or six times over through the appreciation of the dollar due to legislation instigated by their bankers and cosmopolitan financiers.

Our Treasury notes will be needed to play an important and necessary part in developing our industries after the war. They will take the place of gold provided they are not withdrawn by some ignorant or corrupt Chancellor. We shall need them more and more as our trade grows—and particularly in our economic struggle with our trade rivals!

Taxpayers are compelled to pay their taxes in legal pounds. They must necessarily buy them with their labour and commodities. If the " pound " appreciates in value, they must give more of their labour and more of their produce to obtain them. It is therefore of supreme importance to every taxpayer whether the pound remains cheap—as it is to-day—or becomes dear, as our financiers wish it to be. By doubling the value of the pound, the wealthy double their wealth at the expense

of the debtor class, whose debts double also. I would strongly urge every citizen to keep his eye on every and any fiscal measure introduced into Parliament from now on. Watch Parliament! Watch members who represent financial and banking interests, to prevent them attempting to destroy the people's money! The first man who attempts to cheat the nation, by raising the value of money should be publicly hanged as a traitor! It is the crime of crimes, because of the widespread misery and suffering it engenders!

GERMAN TRADE METHODS

CHAPTER XI

(*May 4th*, 1916)

GERMAN TRADE METHODS

THE question has often been asked, "By what means has Germany been able to secure in so short a space of time so large a proportion of the world's trade?" Most writers who have dealt with this subject attribute her success to one or more of the following factors: *First,* to the intelligence and industry of the German people themselves; *secondly,* to their superior system of education, and particularly to their technical methods of training; *thirdly,* to their system of trade protection; and *fourthly,* to the encouragement and assistance they have always received from their rulers.

The Germans have often explained their tolerance of so autocratic a Government as theirs by claiming that the Kaiser is the

best trade organizer and sales-agent in the whole German Empire.

There is a fifth reason which is often alleged, namely their financial system, under which their bankers have always been ready to associate themselves with German industries, and to furnish capital to any extent for the development of such enterprises as promised success. No doubt, all these reasons are valid, and German trade is an example of what a nation can accomplish when it is thoroughly united and organized for industrial purposes. There are, however, other factors of quite a different character. The Germans have been taught from infancy up, that the principal aim in life is to achieve success in whatever occupation they may be employed. They have also been taught that "the end justifies the means." No Jesuit ever believed more strongly in this doctrine than the present inhabitants of Germany. Every conceivable method of obtaining and developing trade, whether moral or immoral—whether praiseworthy or contemptible—is considered legitimate. Methods

which other nations would regard as treacherous and infamous are permissible among the modern Huns. Many of these methods have already been brought to light since the war started. Many others are known only to those who have had extensive dealings with German houses and have not hitherto been published.

Trade Spies

We now know that the shoals of young Germans who prior to the war came to this country, to our Colonies, to France, to Italy, to Russia and other countries were trade spies employed under the direction of the German Government to secure all the information they could regarding foreign trade, which information they placed from time to time at the disposal of the German authorities.

Every town was encouraged to send so many of its most intelligent youths to foreign countries to seek employment in any and every kind of industry and business which they desired to follow. Being supported by their townspeople, they were

in a position to offer their services gratuitously, their professed motives being merely to learn the language of the country. They were instructed to send weekly reports to the German authorities, giving a full description and information of the kind of business in which they were employed, with every detail as to output, methods and costs of manufacture, methods of payment, prices, discounts, with the names of the customers of each firm with whom they were employed. Any private business letters that they could secure they were expected to copy, particularly letters from foreign clients, with the nature of the inquiries, special terms asked or offered, and amount of orders, etc. In some cases, these youths were instructed to secure samples of the goods made by their employers and to send them to Germany. In this way, the whole business arrangements and methods of foreign firms became known to the German manufacturers, with the result that they merely had to produce articles of a similar nature, or if possible with some improvement, and

offer them at slightly better terms to the clients of these foreign firms in order to secure such foreign trade. German firms were given to understand by their Government that any financial assistance they might require for the purpose of ousting their foreign competitors in the markets of the world would be granted them. They were instructed to undersell foreigners wherever it was necessary. They were told to give longer credit and to do everything in their power to convince the foreign purchasers and consumers that German methods and German goods were superior in every way to those of all other nations.

Secret Subsidies

It has been stated that at least one school of languages was subsidized by the German Government in order that its employees should send to Germany copies of correspondence given them by foreign firms for translation. It has been a custom with many British and foreign houses to send their foreign letters to such schools for the purpose of translation. Consequently, it

was a very simple matter for the translators—if they were unscrupulous enough—to make and send copies to Germany. Such correspondence, naturally, was often of a very private character, containing details of the foreign markets and of the needs of various foreign purchasers, all of which would be of enormous value to the Germans.

Another method that the Germans have practised was to send their representatives abroad to secure agencies for British, French, Austrian, Italian, American and other goods. These representatives would, for example, locate themselves in London or Manchester, and having secured the agencies for various British manufacturers for British specialities, they would endeavour to work up a trade in these articles within Great Britain itself. Having established themselves and become known to the particular trade in which they were engaged, having opened up a business with the British public, they would send the samples of these British-made goods to Germany and have them manufactured

there, import them, and continue to supply their British customers with these imitations of British goods, until finally the British manufacturers would find their trade practically destroyed in their own country by their own agents. That these methods not only received the sanction of the German Government, and the so-called "higher classes" in Germany, is quite credible to those familiar with the kind of justice and honour prevailing and administered in the Fatherland.

Some years ago, I was represented in South Germany by an agent who had been introduced to me as an extremely able and reliable man. After some months' experience with him, I discovered he had been obtaining money under false pretences and had apparently forged my signature to documents which he had drawn up, giving himself the right to negotiate certain patents which I owned. On the strength of these documents, he had secured the payment of a large sum of money. The matter was brought to the attention of the Public Prosecutor of the city in which this

man resided, and my solicitor petitioned for the man's arrest. The Public Prosecutor inquired the name of the prosecutor, and when he discovered that I was an Englishman, he refused to issue the warrant. When my solicitor expressed surprise, the Prosecutor suggested that I should assign my claim to a German subject.

"I am not going to arrest a German at the instigation of a foreigner," said he.

German Justice

I had an acquaintance residing in that city—a German Baron—a very well-known public man, and I informed him of the decision of the Public Prosecutor, whereupon he offered to take the claim. He informed me that he also had been victimized by this same agent, and that he had hesitated to prosecute him as he had known his father. However, he forwarded my claim, together with his own, and on his complaint the agent was arrested and kept in prison without trial for a week. At the end of the week, the Baron was summoned

by telephone to appear at the Public Prosecutor's Office, where he was brought face to face with the prisoner. The following conversation ensued:

Public Prosecutor: "I have asked you to come here, Baron, in order to get the case against this unfortunate man settled. I understand that your complaint is that you gave him money at his request for the purchase of certain shares in a company, and he has failed to either return you the money or hand you the shares. If he gives you the shares are you content?"

The Baron: "Yes, I have no wish to punish the man, and if he returns me the shares, I shall be satisfied."

Public Prosecutor to the prisoner: "If I let you go, are you willing to give the Baron the shares you owe him?"

Prisoner: "Yes."

Public Prosecutor: "If you do not return the shares within a week, I shall have you re-arrested, and then you will be punished. You can go."

The Baron to Public Prosecutor: "But this case is only one of two. What about the forgery case?"

Public Prosecutor: "That case has nothing to do with you, Baron. I understand that you have merely taken it out of friendship for a foreigner, an Englishman, and I am not going to punish a German citizen on the complaint of a foreigner. My advice to you is to drop the whole thing and have nothing to do with it."

This apparently ended the case so far as the Baron was concerned, but my turn was yet to come. Some three weeks later, I

was on my way to Vienna, and I telegraphed my solicitor to meet me *en route.* I had come direct from Flushing on one of the through trains that ran from Flushing to Vienna. On my arrival in Germany my solicitor boarded the train, and advised me not to leave the train before crossing the Austrian frontier, as a warrant had been issued for my arrest. I inquired what crime I had committed. His answer was: "You have committed one of the most serious crimes of which a foreigner can possibly be guilty in Germany. You are accused of having conspired with another person to cause the arrest and imprisonment of a German citizen, and this is punishable with a long term of imprisonment." I asked him for the details, and he informed me that the agent who had forged my signature, after he had made his peace with the Baron by returning him his shares and had secured his freedom, applied to the Public Prosecutor for my arrest on the ground that I had conspired with the Baron to deprive him of his liberty!

I stated to my solicitor that of course this was nonsense, and that I had merely acted on what he himself informed me was the advice of the Public Prosecutor. He answered: "This is true, but it does not lessen the crime in the eyes of German laws. The man who advised your assigning your claim to a German citizen is the same who has issued the warrant for your arrest for having taken his advice." He added: "Now you are beginning to get some idea of 'German justice.'" He said, "I could furnish you with dozens of illustrations of a similar character, of how foreigners have innocently fallen into traps of this sort and have had to suffer the consequences." For some three or four years afterwards I had to exercise extreme caution in travelling in Central Europe in order to escape the warrant that had been issued against me.

On another occasion when I attempted to bring suits against certain German firms for infringing my patents, I was advised by the very highest patent counsel in Berlin not to attempt to bring the suit in my own

name. This eminent counsellor said: "I am sorry to have to confess it, but we have no laws in this country for the protection of foreigners. Our laws are made for the benefit of Germans and Germans only." He added: "I do not think any of our patent judges would issue an injunction to stop Germans from manufacturing goods in this country, even though they infringed your patents, considering that you are a foreigner. Your only chance of success would be by assigning your patents to a German or a German firm, and getting them to bring a suit in their own name."

When the war broke out, there were no less than thirty German companies manufacturing goods which infringed the patents granted to me by the German Government!

NEW STEPS IN ECONOMIC REFORM

CHAPTER XII

(*June 22nd*, 1916)

NEW STEPS IN ECONOMIC REFORM

One of the many changes already accomplished by the war is that effected in the mental attitude of the British public regarding social and economic reforms. Two years ago our conservatism and dislike for innovations seemed to be ineradicable. We were regarded by our Transatlantic neighbours as almost impervious to new ideas and to all radical reform measures. We were considered as a people on the down-grade, living on the memories of the past, and in most of our methods and habits nearly fifty years behind the times. To-day our conservatism is conspicuous by its absence. The British public mind hitherto regarded as fossilized, has been changed to a condition of remarkable plasticity. The symptoms of old age and

decadence, which were apparent prior to the war, are no longer visible, and instead of this, we find a mental vigour and moral outlook indicative of a nation in the young and formative stage.

A Period of Reform

We are living at a period when almost any moral, social or economic reform could be introduced and welcomed with avidity. Witness the ease with which paper money has displaced gold coins for currency purposes, a system which Lord Goschen, with all his skill and influence, failed to introduce. Witness also the recent Daylight Saving Act, which a few years ago was regarded as altogether Utopian. In fact, we have arrived at a stage of our national history when almost any reform is possible. And the imagination becomes confused when one contemplates the innumerable plans and policies suggested and necessary in order to carry Britain to heights of progress hitherto considered unattainable.

Without rushing too far ahead, let us consider one or two simple practical and

urgent reforms which could quickly and readily be effected, for which the present times are propitious. Nearly a century and a quarter ago, the French Government offered to the world the simplest system of physical measurements—for weights and measures—ever proposed. With the exception of the great English-speaking races, practically the entire commercial and industrial world have adopted the French Metric System. Only Great Britain, her Colonies, and the United States still cling to their archaic system. It is perfectly true that we have recently *legalized* the French system, but the time is surely now ripe for making its use *compulsory*. If this were done, to take effect say, six months after the passing of the Act, its introduction could be achieved without any serious trouble or dislocation of trade, and an economy in time and labour would be achieved that would be incalculable! The saving which would be effected in clerical labour alone would furnish a small army of clerks for much needed service in other fields.

There is another reason which should induce us to urge the immediate adoption of this system. We are hoping to form some kind of Commercial Union with our Dominions, and to enter into certain friendly trade relations with our Allies after the war. We are preparing to capture German trade in many countries. To do this we must understand the nature and methods of trade in those countries, and by adopting the same standards and methods of measurement, we shall make the task of our manufacturers and merchants much easier. Many a foreign contract has been lost by reason of the inability or refusal of British manufacturers to estimate in terms of metric measurements. The Germans have no difficulty in this respect, since they use the same system.

Accompanying this change, however, there should be introduced a decimal coinage and currency system. Although the United States still join us in retaining the old unscientific system of weights and measures, they, as well as Canada, long ago recognized the enormous advantages

of the decimal monetary system, and adopted the dollar and cent as their monetary units. In fact, Great Britain is the only important nation that has not yet adopted the decimal coinage.

An American writer recently asserted that the adoption by the U.S.A. of the English coinage system would require nothing less than a conscription of all the American youths to undertake the clerical labour which this extra work would entail! But it is not merely in the matter of bookkeeping where vast economy would be effected by such a change. Let any one interested stand at any of the booking offices of a London railway station or theatre during holiday times and witness the time taken by the cashiers in receiving coins and notes and counting and giving change. Then let him do the same at any of the New York, Boston or Chicago railway offices and note the difference. I have seen a hundred passengers pass through a New York Elevated Railway turnstile, each one buying his ticket, and the majority receiving change, in less than six minutes!

I have been one of a line of twenty at a London booking office and it has taken the clerk over ten minutes to perform the same service. In other words, it has taken the London official with our complicated archaic coinage system ten times as long to attend to a given number of passengers as the American with his simple decimal coinage! Nor is this all. The chances of errors and mistakes in giving change, are enormously greater with the former. No head work, no mental arithmetic is necessary with the decimal system, whilst ours usually entails some very nimble and careful calculations.

This discussion is, of course, the revival of an old subject. But the conservatism which has hitherto made such simple and undeniably essential reform impossible, is to-day almost non-existent. Moreover, economy is in the air, and the public is clamouring for it in every shape and form.

Our Coinage System

Many suggestions have already been made for changing our coinage system. That which would necessitate the least

inconvenience is to make the ten shilling piece the standard coin in place of the sovereign. This would only occasion a change in the division of the shilling. By dividing the shilling into ten pennies, we should arrive at the decimal system in practically one step. For convenience we might regard the penny as divided into ten parts, although it would not be necessary to furnish a coin of less denomination than half-a-penny. The standard coin (10*s.*) might be called the "George" in honour of the King, just as the standard French coin is the Louis, formerly the Napoleon. We should then have:

10 farthings	=	1 penny.
10 pence	=	1 shilling.
10 shillings	=	1 George.

The transformation of "Georges" into pounds and vice versa would thus be simplicity itself. No doubt the monetary pound—relic of a barbarous age—would gradually disappear from our vocabulary. Ever since gold supplanted silver as *the* money metal, the term "pound" has lost its original significance.

Scientific opinion in this country and in our Dominions, as well as in the United States, is almost unanimously in favour of the general adoption of the decimal system in all our methods of physical measurements, and the present time is undoubtedly the psychological moment for beginning a new era in this particular field.

LABOUR, CAPITAL, AND THE STATE

CHAPTER XIII

(*October 5th,* 1916)

LABOUR, CAPITAL, AND THE STATE

THE present praiseworthy efforts of many well-meaning people to secure industrial harmony by bridging the gulf separating labour and capital are worthy of every encouragement. But a word of caution from one who has had a life-long experience in industrial affairs, both here and abroad, may save from disappointment many of those who fondly hope that all that is needed is a certain amount of good will on both sides in order to solve the difficulty. *Good will alone will not suffice.* A complete settlement of the labour problem can only be achieved on thoroughly sound economic lines, which will involve a complete reversal of many old-established theories. Above all, it will involve sacrifices—particularly from the capitalistic classes—and until

these are prepared to meet labour upon the common grounds of humanity and honesty, all the efforts of our statesmen, clergy, philanthropists, and publicists, will end in mere idle talk.

Let us first dispose of some old theories which at present tend to obstruct the path of those who wish to reconcile the two conflicting parties. The production and distribution of wealth follows certain defined rules, which are due partly to custom, to parliamentary laws and to ancient statutes, and which have been classified and embodied in the so-called Science of Economics. But with changing social and industrial conditions, those rules which apparently held good for one age fail utterly in another. Experience has shown us that many of the so-called "principles" upon which orthodox economics were originally based, are utterly false. Some of our modern economists have long perceived that the orthodox science as enunciated by the standard authorities from Adam Smith to Stanley Jevons, is merely an incoherent ensemble of theories as unreal and unreliable

as the "science" of astrology. We know now that the artificial creation designated the "Economic-Man," is as mythical as Frankenstein. Men are not governed by greed alone, nor is the acquisition of material wealth the sole end and aim of existence. The trouble with the old economists was, that having found certain institutions in existence and apparently in good running order, they concluded that these were of a permanent character, and straightway set out to justify them and regard them as based upon certain fixed laws. They then placed the whole science in a water-tight compartment, so that it had no possible connexion or relation with any other science. Both Ethics and Psychology were deliberately ignored. Forgetting that man and society are organic and subject to growth and development, they sought to solve dynamic problems by static laws.

Those who are anxious to secure industrial harmony must first realize that the old system which regarded labour as merely the servant of capital, is dead—in spite of the efforts of certain schools to galvanize

it into some sort of life. Even so orthodox a writer as Jevons was compelled to admit the gross fallacies of the orthodox creed. Writing on the subject of labour, Jevons, in his *Theory of Political Economy*, said:

> "Although labour is the starting-point in production and the interests of the labourer the very subject of the science, yet economists do not progress far before they suddenly turn around and treat labour as a commodity which is bought up by capitalists. Labour becomes itself the object of the laws of supply and demand, instead of those laws acting in the distribution of the products of labour. Economists have invented, too, a very simple theory to determine the rate at which capital can buy up labour. The average rate of wages, they say, is found by dividing the whole amount of capital appropriated to the payment of wages by the number of labourers paid, and they wish us to believe that this settles the question!"

The economic world resembles other fields of human activity in this, that the introduction of one evil frequently brings into operation another which is equal and opposite. Indeed it is evident that economic stability has hitherto been attained by neutralizing one evil force through the creation of another. For example, the evils engendered by the excessive demands of capitalists, were balanced by the or-

ganized defence of labour through its Trade Unions in restricting output. For centuries legislators have found it necessary to oppose the greed of those who live on usury by anti-usury laws. The development of British trade during the past century and a half is largely due to the ability of our commercial men to evade the monopoly which was granted by William III to the founders of the Bank of England, by the development of the cheque system. State encroachments usually call into existence societies for the protection of personal rights, whilst the efforts of individuals or private corporations to oppress the public, are invariably met either by those of voluntary organizations who refuse to have their liberties invaded, or by Anti-Trust laws enacted by the State. *If we are to have a new and better economic dispensation after the war, if we are to get rid of the old wasteful industrial disputes, we must have a new data of economics.* We must bury the old system and recognize it as a miserable failure, which experience has proved it to be. The object of the science was

defined by Adam Smith in his *Wealth of Nations :*

> "Considered as a branch of the science of a statesman or legislator, political economy proposes two distinct objects. First, to supply a plentiful subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves.
>
> "Secondly, to supply the State or Commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign."

"How happens it then," asked Proudhon, "that in spite of so many miracles of industry, science and art, comfort and culture have not become the inheritance of all? How happens it that in Paris and London, centres of social wealth, poverty is as hideous as in the days of Caesar and Agricola?" And the Economists were dumb!

Ruskin defined the orthodox science as a "mere mercantile economy, i.e., the economy of merces or of pay"—"the accumulation in the hands of individuals of legal or moral claims upon or power over the labour of others, every such claim implying precisely as much poverty or debt on one side as it implies riches or right on the other.

It does not therefore necessarily involve an addition to the actual property or well-being of the State in which it exists." (*Fors Clavigera.*)

Although so far as affording a means for solving our industrial problems is concerned, orthodox economics has failed, and failed conspicuously, it still furnishes the basis for most of the stock arguments employed by those who are opposed to innovation and change. Curiously enough the old delusion of the "economic man"—a productive machine endowed with one animal quality, greed—seems to have formed the basis of that particular variety of pacificism known as Norman Angellism. According to this doctrine, men were expected to beat their swords into ploughshares and their spears into pruning-hooks as soon as it could be demonstrated that a successful war couldn't "pay"! That millions of rational beings would gladly rush to arms merely to defend a moral principle, and prefer a violent death to living in material comfort under a political system of which they disapproved, ap-

peared to some men unthinkable. That there could be a higher and a stronger passion than the desire to acquire wealth, was evidently forgotten by these blind materialists—according to whose creed "Man lives by bread alone." Those who think this presentation of pacificism distorted have only to read the recent writings of Angellites like John A. Hobson, Ramsay McDonald, and other members of the Union of Democratic Control, to realize how supreme commercialism ranks in the minds of these people. We must not "humiliate" the Hun, in spite of his savagery, treachery, and unspeakable atrocities, because it will be against our commercial interests! We must resume our friendly trade relations with a nation that has sworn to destroy us and our Empire by the foulest means, because our trade with Germany has been profitable! In short, honour, decency and self-respect must not be allowed to interfere with the economy of pay! This is the Free-trader's new chivalrous creed!

Gulf between Labour and Capital

The gulf separating labour from capital is due entirely to the clashing of private interests. The quarrel is over the division of products. Each side demands as large a slice as it can obtain.

Capital says to Labour, "Let us make the produce as large as possible, then your share will be larger."

To which Labour makes answer: "Experience tells me that this increase would only be temporary and would result in my ultimate undoing. You are few and powerful, I am many and weak. Supposing by extra toil I am able to double or treble the output. What happens? Since the effective demand for commodities (i.e., the demand of those who have money to buy with) is limited, as soon as you have stocked your markets you will begin cutting down expenses, reducing the number of employees. Your journals will talk of 'over-production.' Finding that you can now satisfy the public demand with half the men you formerly employed, you will turn the other half adrift. Having temporarily

raised their remuneration to get them to increase their output, they will find they have merely presented you with a whip with which you are able to enforce your demands. Having got rid of half your hands, you will turn to those you have retained and say, 'See the condition of your unemployed fellows! They would gladly return for half your wages! You cannot expect me to continue your present rate when they are willing to take your jobs for less. Accept this rate, otherwise I must turn you adrift and employ the other men.' We've been through this before and don't intend to be caught again. Our sole salvation is in uniting to restrict output so that the supply can never exceed the demand, and by this means you will be bound to employ all our members."

Under our present system of distribution, this attitude of Labour is unanswerable. . . . How then can these fundamental differences be settled? Profit-sharing is offered by some as the key to the solution. But as no fixed percentage has yet been set up as an established rule, this solution

seems very indefinite and uncertain. A certain Socialistic school holds that every man should contribute to production "according to his ability," and receive in return a share of the produce "according to his needs." But who is to determine one's ability and whether every man is contributing his share? Who is to be the judge of each man's needs? In determining the method of distribution, we must first get rid of all such exploded doctrines as those which have done duty for so long in defence of a system which was really indefensible—such as that the payment of interest is the "reward of abstinence"! We must proceed from an impersonal standpoint—and regard the nation as a single unit. In other words *the settlement of the Labour versus Capital contention can be made only by placing both parties on the same side of the fence where their interests will be mutual.*

An Apt Illustration

Consider then the owner of a business

who employs himself exclusively with his own capital, and who represents in his person both Labour and Capital. How would he use his returns? First he would provide himself and his family with sufficient food, clothing, and shelter to maintain them with a certain degree of comfort—depending upon his circumstances and the level he had been accustomed to—and for the education of his children Next, he would set apart a portion for maintaining and renewing his capital—providing for wear and tear. Then he would allot a sufficient sum for payment of rates and taxes. If a surplus still remained, he might probably use some for increasing his comforts at home, giving a higher education to his children, giving them a summer holiday trip, etc. The rest he would devote either to enlarging his business or invest in some safe manner in order to provide for a "rainy day." Unless he were a miser and mentally unsound he would certainly not starve himself and family whilst his capital was increasing by leaps and bounds!

Now the economic distribution of wealth should similarly be effected so that all *the prime factors were first provided for,* to replace the energy and material expended in production. *If a nation is to maintain its output year after year, its annual production must be so distributed that both Labour and Capital are kept in a constantly normal and healthy condition.* There are really three parties to consider in this distribution, viz., Labour, Capital, and the State. These three are bound to be maintained. It appears to me therefore that no final settlement of this question will ever be accomplished until these are united in the ownership, management and control of industry.

Every industrial establishment should in my opinion, therefore, be directed by a representative of the State, the Capital-owner and Labour respectively. The distribution of wealth would be made not, as at present, according to the caprice or selfishness of one particular class, but according to the necessities and interests of all three parties—particularly for the

purpose of maintaining and developing all the factors of production. When this can be accomplished, we shall hear no more of curtailing or restricting output, since this would mean an injury to Labour as much as an injury to Capital and to the State. Owing to the gigantic proportions which our National Debt is assuming, the contributions of Industry to the State are bound to become more and more serious. Hence industrial prosperity will become a necessity, and the State will be bound to take a more active interest in and acquire a greater intimacy with Industry than heretofore.

Moreover, it will become more and more apparent that we are all members of one Society, the British Empire, to whom we owe our safety and protection and to whom in return for such protection we must all contribute according to our ability. Is it too much to expect that these intimate relations between the State, Labour and Capital must finally result in an industrial partnership for the protection, development and prosperity of the Empire and all its members? Then, every man will have

the highest incentive to produce the greatest possible quantity of wealth, knowing that the greater the output the greater will be the share of each individual.

PROPERTY AND THE STATE

CHAPTER XIV

(*November 2nd*, 1916)

PROPERTY AND THE STATE

SINCE the rise of the Labour party, the demand for increasing the power of the State over property has grown amazingly. In almost every journal one reads nowadays dealing with trade, industry, labour and capital, writers of all shades of political opinion suggest or insist upon the necessity for the State taking a more active interest in economic affairs which formerly were regarded as entirely outside the scope of Government control.

The classical school of Mill and Spencer with its doctrine of *laissez-faire*, seems to have dwindled to microscopic proportions. The old bogy of State Socialism—with which members of the various individualistic schools were wont to frighten the public—seems to have lost its terrors.

Indeed, we are now experiencing a degree of State interference in every department of life which would have seemed incredible a decade ago, and which if attempted half a century ago would have driven our fathers and grandfathers into revolt. This encroachment on the part of the State is not confined to this country. It is part of a world-wide movement in which every Government has found it essential for economic reasons to identify itself more and more with the trade and industry of its own people. Moreover, it is certain that this movement is bound to increase as the war proceeds. Whether we like it or not we are in for an era of State control over hundreds of matters which formerly were regarded as purely personal. Let us then inquire what we mean by the terms State and Property as well as the cause of this momentous change which has led the public—including many who were formerly classified as individualists—to regard the increased powers of Government with complacency if not with favour.

By the word State, broadly speaking,

we usually mean the governing power, consisting of the three Governmental departments: Administrative, Legislative, and Judicial. In this country it would comprise King, Cabinet, Parliament, Judiciary and Governmental officers, including the military and police. But since the Cabinet of late years has become practically supreme, one frequently speaks of this body, which wields entire political power, as alone representing the State. In Germany, where the Kaiser is an autocrat, he might with truth define the State in the words of another despot, "*L'Etat, c'est moi!*"

In the minds of some, the word has a much more comprehensive meaning. The advocate of State Socialism, for instance, regards himself and every other citizen as a part of the State. He considers the State officials and members of Parliament as merely *directors* of the State which comprises the entire nation. Therefore when he asks the Government to nationalize the land, and the implements of production generally, he does so in the belief that everything will be conducted by the State

officials for the sole benefit of the nation —including himself. To individualists, the State represents merely a gang of office holders—often a corrupt and ignorant gang. The strength of individualism has been derived from history and experience. In all ages the State, whether autocratic, aristocratic, oligarchic or democratic in form, has been more or less oppressive, wasteful and corrupt, and the greatest human struggles in the past have been those in which the people have attempted to escape from or overthrow the tyranny of the State.

With the recent extension of the representative system, the public have ceased to connect tyranny with Government—except in countries where the autocratic system still prevails. Fifty or more years ago the fear of State oppression in England was still acute, and the average citizen was more concerned about preserving his personal liberty and freedom than developing the trade of the Empire, or securing the country against invasion. The improvement in the education and status of the

labouring classes has altered the political conditions of all industrial countries very materially. The working classes regard the State more as their friend and saviour than as a tyrant. For it is to legislation they owe most of the advantages denied to their forefathers. They point to the numerous Factory Acts, Employers Liability Act, Education, Trades Union and Pension Statutes as responsible for their improved condition. And not unnaturally they contend that by extending the powers and scope of the State, all their disabilities can be removed and the age-long struggle between Labour and Capital can be finally and peacefully settled.

Many modern writers point to the fact that both from the moral and economic standpoints the policy of *laissez-faire* has been a dismal failure, that it tended to divide society, and keep it divided, into two classes—the very poor and the very rich! The wisdom or folly of the "let-alone" policy depends entirely upon the particular stage when and where the policy begins. Supposing, for example, a surgeon

attempted to cure a disease by the use of the knife which might readily be cured by some more natural remedy. Before the operation was begun, one would be justified in exclaiming with the Flemish merchants in answer to Condé, the French statesman, who asked them what he could do to improve their trade, "*Laissez le faire*"! But supposing when the surgeon was half-way through his experiment he were to leave the patient with a bleeding gaping wound! The application of the "let-alone" policy at this stage might result in the patient's death!

The stage at which the British Government adopted the *laissez-faire* policy was when certain privileged classes already controlled two of the essential factors of trade and production, i.e., land and credit; and the attitude of the capitalistic class towards labour at that time was such that hundreds and thousands of the labouring classes died of misery and starvation! No wonder the *laissez-faire* policy failed! The theories of Mill and Spencer were to the effect that the State should confine itself

to the duty of protecting the life, liberty and property of the citizens. But here again nothing was said as to the particular stage of social development at which the State could safely relinquish all its other functions. And unless and until a system of economic justice is firmly established, by which each member of the community is enabled to provide properly for the needs of himself and family, the State must interfere to save society from civil war or anarchy.

The protection of property has always been regarded as a duty of the State co-equal with the protection of life. Now, what is property? Probably the two most famous definitions of both property and the State originated with two Frenchmen. "*L'Etat c'est moi!*" came from the lips of the autocratic Louis XIV. "*Qu'est ce que la propriété? C'est le vol!*" wrote Pierre J. Proudhon in his famous Essay on Property. But Proudhon referred not to material things, which we term property, or commodities, but to the *legal right to increase* which the ancients termed usury

(i.e., payment for the use of things), and which the modern world disguises under the terms interest, rent, and profits.

But there are other reasons which have influenced a vast number to advocate a greater control by the State over wealth and production. Whilst the nation is an aggregation of millions of individuals, it is *per se an organic whole*, and the moral, economic and physical condition of the individuals affects the entire organism. A nation is weak or strong according as the physical, moral and economic condition of the bulk of its population is bad or good. Men cannot live wholly to themselves. They must therefore take some interest in the condition of their neighbours in order to enjoy a certain measure of safety, comfort and happiness themselves. With the vast increase in the population, the question of food supplies, transportation, banking facilities, sanitary conditions, good housing accommodation, good roads, good light, pure water, pure milk, and hundreds of others, are of vital importance to every citizen.

The Roman law regarding property upon which European laws have been based, asserted the right of the owner "to *use* and *abuse*" his property as he saw fit. And whilst this right exists to-day in regard to most articles which are easily reproduced, such as clothing, furniture, newspapers, matches, etc., it is not permissible with property which is recognized as a public necessity and difficult to reproduce —a railway or canal, for instance. To-day we should consider any one a criminal who deliberately destroyed good food, oil, machinery, coal, leather or any commodity essential for the national safety. The claims of the nation are now regarded as superior to those of the individual. And private ownership in its original meaning—especially of such things as are essential to society, to wealth production, to national defence —is being recognized more and more as an anomaly, as a possible menace to the community.

The right to *use* a thing properly would be generally conceded, but the right to

abuse it (i.e., weaken or destroy) is now seriously challenged. Society has already forbidden a man to abuse his dog or his horse simply on moral grounds. It is but a short step to forbid the abuse (i.e., destruction or even misapplication) of inanimate things. In a community where every inch of the soil is needed for agriculture for the support of the population, it should be made a crime to convert acres into a mere game preserve. We have recently witnessed two of the most important club buildings in London given up readily by their members on behalf of State requirements. Thousands of privately owned works have been willingly placed under State control for munition work. In short, we are rapidly approaching a condition when private ownership will be transformed into, or limited to, public trusteeship.

Germany's Industrial Power

Another reason why State control is meeting with general favour is due to economic considerations. One of the greatest factors in the recent prodigious growth

of industrial power is organization. Germany's unparalleled industrial development during the past forty years is due to her genius for organization. The organized efforts of 100 men are enormously more effective than that of thousands unorganized and operating independently. If the millions of men comprising the Italian armies had exerted themselves separately and independently, not a single gun would have been raised a single foot towards the summit of their mountain ranges where our brave Ally is now successfully beating back the enemy's organized preparedness of fifty years past. *Union is strength in every department of human activity, whether physical, industrial, moral, social, political, financial, or military.*

The economic strength of a nation is as much the result of organization as is its military strength. And organization to be effective must be concentrated in few hands. How can this be accomplished except through the State? The State is the only body at present existing through which the industrial energies of the millions

comprising a nation can be organized into a united force. Of course, the weakness of State control lies in the possibility of its offices being filled by incompetents or something even worse. Theoretically, however, State control in economic affairs should stand for strength and efficiency. To-day the State is already an active participant in most of our industrial affairs, and to a degree undreamt of a few years ago. Is this participation to continue after the war? Personally, I am inclined to think that it must, through force of circumstances. Our people have been compelled to transform themselves from a peaceful industrial nation into a militant type of society, and the voluntary co-operative system has had to give way to the compulsory system. The aggressiveness of the German character has not only forced militancy upon all the nations of Europe, but for years past it has completely changed the character and conditions of international trade. The peaceful character of trade as preached by Cobden and his disciples, has given place to industrial

warfare, and the possession of markets are among the professed objects for which armies and navies are maintained. It is not generally known, but the day that Bismarck established the gold-standard in Germany—under the advice of an international Jew moneylender, Bleichroeder—saw the end of England's free-trade system. Since then, international trade has been a system of warfare—an international struggle for gold as the prize. Prior to 1870 our trade with Germany was an exchange of labour products. Competition began as soon as Germany was placed on the same monetary plane. Consequently from 1874 to 1900 our exports remained stationary —in fact, they actually declined *per capita* —although during the previous thirty years our export trade had increased to the extent of over 500 per cent. !

There is every indication that this hostile character of trade will be greatly intensified after the war, and hence we shall require the strongest possible system of organization in all our industrial, financial, and commercial operations.

THE COMING TRADE WAR

CHAPTER XV

(*November 23rd* 1916)

THE COMING TRADE WAR

THROUGHOUT the civilized world the opinion is very general that the cessation of military hostilities will be succeeded by an economic war, far more bitter and relentless than anything yet known. This "War after the War," as it is termed, was first threatened as soon as the German rulers realized that their great military conspiracy for the conquest of Europe had definitely failed. For thirty years prior to the war, the leaders of pan-Germanism had been watching with growing satisfaction the steady, silent strangle-hold which their people were acquiring upon every branch of commerce, industry and finance throughout the world. By their system of peaceful penetration they were achieving conquests which bid fair to

surpass anything ever obtained from military successes. As a result of their industry, perseverance, patience, audacity, unscrupulousness, and genius for organization, the German people were—with the assistance of their foreign Ambassadors and Consuls—securing the control of one industry after another. Unfortunately for them—although fortunately for all other nations—this method and rate of conquest was too monotonous and too slow for their leaders. This underground method of warfare left their military class unoccupied. Hotheads like the Kaiser and his unspeakable son, wanted something far more exciting and spectacular. Hence the present war with its horrors and its frightfulness. One is tempted to imagine what the next twenty-five years might have brought forth had these rash fools been controlled by a Bismarck, and the steady, patient, economic pressure had been allowed to continue. At some date not far distant the German historian will chronicle the fact that in the early part of the twentieth century the conquest of a vastly greater

and wealthier Empire than anything dreamt of by Alexander or Caesar lay within the grasp of the German people—a conquest as remarkable as it would have been original. All that was required to effect this great consummation was a continuance of the same efforts and methods which were in operation in the year 1914 when the Prussian Kaiser by precipitating war wrecked the Central Empires and destroyed for ever the supremacy of the German race. On the other hand, the historian of Britain will probably trace in all this upheaval the hand of Providence, using the Emperor of the Huns as his instrument to awaken the nations from their lethargy, and warning them of the net which the enemies of God and man had prepared with which to entrap and then enslave them!

At the opening of the Economic Conference of the Allies at Paris last June the French Premier said:

"The war has shown us the extent of economic slavery to which we were to be made subject. We must realize that the danger was great, and that our adversaries were on the eve of success. Then came the war. The war, with its immense sacrifices which it demands, will not have been in vain if it

brings about an economic liberation of the world, and restores sane commercial methods. We are all determined to shake off the yoke which was being forced upon us, and to resume our commercial intercourse in order freely to join it to that of our Allies."

The result of this Conference we all know. It was embodied in a series of recommendations by the representatives of the Allied Governments, in which various measures were proposed for meeting the threatened economic aggression of the enemy. Unfortunately these recommendations remain, so far as the Government of this country is concerned, almost unheeded.[1] What future action our rulers intend taking we do not yet know. But the recent Parliamentary discussion and decision of our Colonial Office regarding the sale of enemy lands in Nigeria have given serious cause for alarm, and shows that the Paris Conference has apparently carried little weight with certain Ministers. Indeed it is known that in certain influential quarters the proposed measures are not only regarded as objectionable, but have already met with ridicule.

[1] Since this was written Lord Balfour's Committee has reported favourably upon the adoption of certain suggestions made by this Conference.

Although the vast majority of the British people shed their party politics the day the German troops invaded Belgium, a small section found this operation disagreeable—if not impossible. And much as we may deplore the fact, we shall be compelled to hear a revival of the centuries-old discussion of Free Trade *versus* Protection as soon as peace is within sight. In view of this threatened recrudescence of a dispute that ought to have been finally settled long ago, it is necessary that the preparation for the war which is to follow should be made at once.

We now realize the appalling price in blood and wealth our military unpreparedness has cost us and our Allies, and we know that much of the responsibility for this unpreparedness lies at the door of the busy little group of pacifist fanatics who thirty months ago assured us that the threat of German military aggression was a stupid and wicked invention of our jingoes and hireling journalists! We are now told by the self-same group that "to pretend that all this activity (i.e.,

German industrial, commercial and financial enterprise) is in the main a screen to an instrument of Prussian State policy, aimed to penetrate all countries of the world commercially and financially, in order to convert this economic into political control, is idle vapouring, whether it proceeds from angry bagmen or from statesmen who should be 'responsible.'" The same writer adds:

> "The notion that all this expanding German trade and finance have been the cats-paw of the aggressive German State is baseless. The capitalists who rule German industry, trade and finance are out for profit, not for political aims, and their success would have been impossible on any other terms."

The writer of the above, Professor J. A. Hobson, is the most widely read Free Trade "authority" in this country, whose opinion is accepted by certain Radical ministers as conclusive. One would have thought that after all the innumerable exposures of German State intrigues in America, Russia, Poland, Holland, Belgium, France, Italy, Turkey, Rumania, Greece, Spain, Mexico, Africa, and elsewhere, any doubt as to German commerce and finance

being employed by the Pan-Germanists as instruments for German political aggression, would have been definitely set at rest for all time. To deny this aggression is to deny the evidence of one's own senses as well as the testimony of clouds of witnesses in all countries. If the bare assertions of a few fanatics are to obtain credence, we might as well accept the recent testimony of Miss Emily Hobhouse as to the comparatively happy condition of Belgium under the Huns, or the statements in the famous appeal of the ninety-three German professors to the civilized world in which among other things they denied "that we (the German armies) trespassed in neutral Belgium," "that our troops treated Louvain brutally," "that our warfare pays no respect to international laws."

To attempt to argue with those who meet known facts with brazen denials is a waste of time. But there is one question in relation to this subject which needs consideration. According to certain Free Trade writers, international trade is merely an exchange of goods or services, in which

the gains or benefits are mutual and equal. This being so, how can such trade be termed "aggressive"? How can there be a trade "war"? "Imports," they say, "must be paid for by exports or not at all, and these exports consist of either commodities or services, and in any case they provide employment for our own people." "This," they add, "is the conclusion of the whole matter." The notion of trade as a "contest" in which one of the trading parties secures "domination" over the other, the notion that protective tariffs and other barriers are needed for "defence," and the notion that such "defence" can be successfully obtained by any of these methods, are termed by the Free Trade professor "curious assumptions."

Now if the assertions of the so-called Free Trade school are correct—if international trade is nothing more than simple barter, i.e., the exchanging of one class of goods for another, the shipment of the surplus products of one country in return for those of another, beginning and ending

at the frontiers of such countries—all this talk of trade "war," economic "slavery" and "aggression" is mere "idle vapouring." In this case we must also regard the Paris Conference as a waste of time and money, and its recommendations should be disregarded. If, however, international trade is something far more serious than barter, if it means the possible foreign control of our factors of wealth production to such an extent as to threaten our existence, then every barrier possible—no matter by what name it has hitherto been known, whether "Tariff Reform," "Trade Protection" or "Prohibition"—should be raised by us and our Allies against the enemy. And those writers who would seek to deceive the nation by lulling us into a false security by deliberate deception and propagating economic heresies should be branded as false teachers and traitors!

Half a century and more ago when the Manchester school was in its zenith, trade was a much simpler and less comprehensive affair than it has since become. Trade as defined and understood by Richard Cobden

was precisely as it is defined to-day in certain standard Free Trade works. The "Trust" and "Combine" had not been invented. Finance was then a far less potent factor in trade and industry. It was regarded more as the tool of exchange. To-day finance rules supreme. Industry and commerce are its servants. In all countries finance dominates every sphere of human activity. It governs trade, commerce, industry, inventions, science, art, politics, the State, and even the Church itself. The creation of the trusts has been the work of finance. And nowhere have these trusts met with greater encouragement from the State than in Germany. The United States, which has been similarly afflicted, has attempted by legislation to suppress them, although with comparatively little success, owing to their vast political power. Those familiar with their methods know how all-pervading this power is, how ruthlessly individuals and private firms have been driven out of business—exterminated—by the unscrupulous use of concentrated economic power!

The foreign trade of Germany of late years was largely in the hands of these great combines and trusts. When a foreign market seemed desirable for certain German specialities, the well-known method of underselling competitors and long-time credits were practised. Behind these trusts stood the German Government ready to guarantee them against losses incurred in strangling foreign competitors and securing foreign markets. I know of one case where a great electrical supply company of Berlin furnished the Buenos Ayres market with £500,000 of electrical apparatus far below cost, at a loss of £200,000 at least, which was afterwards repaid them by their Government. Hand in hand with these methods went also the control of all the agencies by which the public wants were supplied—advertising, transportation and distribution. Germans of all classes and occupations flocked to these various markets in order to control every branch and avenue of trade and its tributaries. In Belgium, for example, the Germans controlled most of the merchandise trans-

port. Everywhere they established their banking houses, and by offering cheaper credit facilities than their competitors they secured a vast volume of the financial business of foreigners. This gave them an insight into the private affairs of their trade competitors, such as terms, prices, etc., which they did not scruple to make use of for the benefit of Germans. They started German clubs which were mere centres of Government spies. They secured interests in foreign journals which they utilized to foster German influence and power in every sphere. To what extent they used these privileges and opportunities afforded them by the generosity of their unsuspecting friends and neighbours, the Belgians, the Dutch, the Italians, the Americans—to say nothing of ourselves—the history of the past twenty-nine months bears eloquent testimony. Prior to the war, the Belgians feared that within a few years the annexation of their country to the German Empire would be a certainty.

The error of Free Traders is in supposing that trade is merely an exchange of com-

modities. On the contrary, trade nowadays means the exchange of commodities or services for money and credit, i.e., legal claims upon society. The object of the successful tradesman is to acquire wealth, which takes the form of investments, lands, bonds, shares, mortgages, etc. And all these forms of wealth are merely claims backed by the power of the State upon labour, present and future. These claims are a source of economic power.

Now economic power is the basis of political power. Surely there can be few questions more serious or important than into whose hands the economic and political power of a nation is to reside ? Moreover, the political affairs of a nation naturally affect those who control its economic power, for the reason that such power can only be enjoyed by the authority of the State. States have been known to repudiate their foreign obligations. Hence universally we find the foreign claims of the financial and commercial classes of each country backed by its own military and naval power. The naval power of

Great Britain was called upon some years ago to enforce the claims of British owners of Egyptian bonds, whilst Germany did the same with Venezuela on behalf of her own financiers.

Political and economic power are always found in close alliance. They act and react on each other, each rendering assistance and support to the other when required. Trade warfare is a struggle for economic power, for the control of men and of all the factors of wealth production. International Free Trade can only flourish among free nations. And complete freedom cannot exist where the tools of trade —money and credit—are the subjects of private monopolies, as they are in this country to-day. Moreover, Free Trade, like cricket, has its rules and obligations, observance of which is essential to a continuance of the policy. To trade freely with a nation like Germany, that holds such rules and obligations in contempt, the policy would be suicidal to the nation attempting it. Free Traders are right in asserting that tariffs tend to restrict the production of

wealth. If Germany had succeeded in conquering Europe, Free Trade would probably have been established throughout the entire Continent, which would have become an enlarged Teutonic Empire, just as it was established throughout Germany when Bismarck welded all the former petty states into one nation. No Protectionist or Tariff Reformer would deny that economically Germany has benefited enormously by the abolition of all her former inter-State tariffs.

But Europe is confronted by a far more serious danger than a curtailment of her annual wealth production, and that is the danger of each nation—especially the smaller ones—losing its liberty and nationality. Rather than forfeit these things, few would hesitate to sacrifice a portion of their annual revenue on behalf of securing themselves and people against such a menace! On behalf of the future security of the British race and Empire, our enemy—who advertises himself as our sworn and implacable foe, who has shown himself to be false, treacherous, cunning, and utterly

untrustworthy—should be denied every opportunity of acquiring the means of again threatening the peace and safety of the world. The measures recommended by the Allied representatives at the Paris Conference should be adopted by the Allies forthwith. Not only does the safety of our Empire but that of civilization demands that we free ourselves from the future menace of the enemy's methods of peaceful penetration.

STATE CONTROL OF INDUSTRIES

CHAPTER XVI

(*December 7th*, 1916)

STATE CONTROL OF INDUSTRIES

With the establishment of a Ministry of Munitions there occurred one of the most remarkable industrial revolutions in British history. By a mere stroke of the pen, a large proportion of the industries of Great Britain were suddenly transformed from independent competitive enterprises into one vast co-operative system for the object of producing munitions and supplies for military and naval purposes. This revolution was accomplished not only without bloodshed, riots or friction, but was actually welcomed by the majority of the industrial classes concerned! Over four thousand independent firms, employing between 2,000,000 and 2,500,000 people, have thus been brought under direct Government control.

It will be interesting to see how this control was accomplished, what it involves, and what benefits it has achieved. Under the special Defence of the Realm Act, very elastic and far-reaching powers were conferred upon the Government. The acquisition of these powers was comparatively simple, requiring merely the vote of Parliament. The extraordinary feature was, the cheerful readiness with which the public accepted these innovations and interferences with their rights and liberties. Indeed, it is a fact worth noting, that from the very beginning of the war the public readiness to surrender its liberties and privileges for the national safety and welfare has always been far in advance of the Government demands. On the question of providing ways and means no Government has ever had a smoother task. The one serious criticism which has been heard from all classes is, the tardiness of the Government in employing more fully and speedily the help and assistance offered.

The limits of the State control of our industries have not yet been defined. The

powers conferred would permit the Government to do anything considered to be essential for the national safety. When the writer received the official announcement that his works were to be controlled, his associate—the owner of a large Midland engineering works—wrote as follows: "This will not affect your business except in the matter of profits. The Government will take charge of everything in excess of a certain percentage."

Since that was written, however, Government control has made considerable progress. As to various details of procedure it may be stated that contracts for such supplies as can most readily be furnished by the contractors, are offered them. The contractor tenders at his own price. If this appears excessive, he is either invited to headquarters or a representative of the Army Contracts Department or Ministry of Munitions may call and explain that his tender is too high, that other firms are doing similar work for a less figure, and he is asked to reconsider his estimate. If he insists on his price terms, his tender

may be refused or the contract may be given him with the understanding that if it is found that he is making excessive profits, the Government will exercise their right to reduce the contract price.

The books of the State-controlled firm are open to the inspection of Government auditors at all reasonable times. Weekly or fortnightly reports have to be sent to headquarters on special forms stating the condition of each contract and the progress of work. Inspectors, both general and local, visit all such firms from time to time to see that Government orders are being pushed forward and not impeded or hindered by other work. No restrictions are imposed upon firms for tendering or executing orders for their own clients—except the understanding that Government contracts must always take precedence. It naturally follows that where Government contracts are large enough to engage a firm's entire plant, all other work has to be indefinitely postponed.

Controlled firms cannot add new machinery to their plant without the Government's

consent. Nor can machine and tool makers supply such firms without special sanction and certificates. Various conditions are also imposed upon controlled firms regarding rates of wages, hours of employment, holidays, etc. "Sweating" is of course not permitted under any circumstances. The sale and purchase of material—particularly metals, such as copper, nickel, brass and steel—are all State-regulated, and special forms and certificates setting forth the class of work, numbers of Government orders, for which the material is required, must accompany every order. So far, however, as the management and running of these controlled factories is concerned, little if any change has been occasioned. If through mismanagement, ignorance or carelessness work is spoiled or defective, the entire loss falls on the firm responsible. The Government does not attempt to interfere with a firm's particular methods of manufacture. On the contrary, every encouragement is given by the various Government departments concerned to help firms in increasing their output and in

settling any disputes and overcoming friction with workmen. Herein lies the secret of much of the success achieved by the administration of the Ministry of Munitions which has succeeded in securing and maintaining all the advantages of individual initiation and enterprise under State organization.

Mutual Aid

A spirit of mutual aid has also been fostered among firms which were formerly bitter rivals. Information as to improved methods of manufacture, instead of being kept profoundly secret as heretofore, is offered by firms to each other whenever requested, chiefly no doubt from patriotic motives with a view of winning the war as quickly as possible.

What benefits, if any, has this association of the Government with private firms conferred upon industry at large? Does it tend to improve industrial conditions? Does it make for efficiency or the reverse? These questions have an all-important bearing, not only upon the present war,

but upon the future of British industry, and particularly in view of the coming trade war for which we have now to prepare. There can be no doubt that State control has proved enormously beneficial to the nation and has tended to efficiency, and consequently to increase of production. In the first place, the mere substitution of the co-operative for the competitive system alone, has been of incalculable value. Instead of the sordid spectacle of a dozen or more firms competing to secure contracts for certain limited supplies in which prices are driven down to the farthest point scarcely consistent with a bare living wage for labour and a minimum rate of return to capital, we are presented with the picture of an unlimited demand for goods at *fair* (in many cases *high*) prices, enabling the employer to pay labour the highest wages in this country's industrial history and giving abundant returns to capital with a surplus for taxation. *The result is an era of the greatest industrial prosperity ever known!*

Some writers will see in this a complete

demonstration of the claims of State Socialists as to the benefits accruing from the State ownership of all the means of production. But we have not yet arrived at this stage. *We are at present enjoying the advantages of individual efficiency combined with State organization.* Had the Government adopted the principle of absolute State ownership, the results would most likely have been different. Very wisely, Mr. Lloyd George at the outset of his administration, invited the leading manufacturers and business men to join him, and most readily and loyally they responded. Instead of becoming a mere politically controlled organization operated by politicians and their friends, the controlled firms have been entirely free from all such pernicious influences. The hitherto insuperable objection to the State ownership of industries has been the fear that the efficiency of private ownership and management would be exchanged for State wastefulness and mismanagement. Whether in the future the State can be so improved as to dissipate such fears remains to be

seen. If it can, the claims of State socialism are brought within the scope of practical politics. Until then, the association of the State with industry should be strictly limited and defined. Within such limits, the association has so far proved itself to be useful and beneficial in introducing the co-operative spirit, in greatly increasing the remuneration of labour, in organizing a great variety of industries to one particular end, and in adjusting and settling differences between labour and capital. In my judgment *this association of the State with industry should be continued after the war.* Merely to be in the position of umpire in any future disputes, would alone fully justify such association. But there are other considerations.

It will be noticed that one of the main successes of State control has been the equalization of industrial and labour conditions throughout the country. Instead of allowing a few firms to take the cream of the orders whilst others are scarcely able to employ themselves on half time, each controlled firm has been provided

with sufficient to keep its plant running to its full capacity. This is due to the fact that the Government has acted as a sort of National Clearing House, distributing orders for goods fairly and impartially, and collecting and distributing the supplies in response thereto. This is an unquestionable advantage to the nation and quite impossible under the pre-war *laissez-faire*, go-as-you-please, devil-take-the-hindmost policy. *How to organize and maintain a similar system for producing and distributing the munitions of life after the war is a problem which ought to be worked out immediately. Its solution will contain the means for achieving the future industrial prosperity of the Empire and the welfare and happiness of all classes.*

The Ministry of Munitions has recently opened a branch known as the Welfare Department, under the direction of Mr. Seebohm Rowntree, which promises enormous benefits to our industrial classes. Inquiries and investigations are being made all over the country regarding the physical conditions existing in our works, the health

of the workers, the lighting, heating, ventilating, the canteen and sanitary arrangements, the number of working hours, the question of Sunday labour, the amount of sickness and its causes, special industrial diseases and their cure, the question of fatigue and its cause, of workers' food their home life and housing, the employment of women and children, etc. Here we find a really practical and honest attempt by the Government to *humanize labour conditions*, to bring about changes under which employees will cease to be regarded as merely machines, or money-making instruments for the benefit of employers. The truth has at last dawned on the minds of very many of our leaders of thought, that the health, prosperity and happiness of the vast masses of our population is not only an end worth pursuing in itself, but is an important factor in maintaining the industrial prosperity of the nation.

The Labour Factor

The labour factor is the most valuable, the most precious asset a nation can possess—and it ought to be treated as such! Together with the land it is our only fundamental source of wealth. We are witnessing to-day a practical demonstration of a truth I pointed out many years ago to the chief of the Labour Bureau in Washington during the period of the McKinley Tariff Bill discussion. It was the claim of the party of high protection at that time, that tariffs were directly the cause of industrial prosperity which resulted in high wages. *My contention was and is to-day that high wages are the cause of trade prosperity.* This can easily be shown. Consumption is the parent of demand, and demand is the parent of supply. The great consuming classes are the industrial workers. *Give them the means to make their demands effective—namely, high wages—and they at once create the demand sufficient to keep themselves in constant employment. In short, industrial prosperity, instead of being*

intermittent and like the weather, variable and uncontrollable, ought to be continuous so long as the prime factors, land and labour, remain unexhausted. The secret of continuous trade activity many are beginning to understand. This is, to return to the original factors of production the bulk of the produce, sufficient to maintain their health and development, according to their needs, so that consumption, demand and supply can increase in the same proportion.

The State has the supreme power of effecting this happy consummation. It can assist in organization, in maintaining the principle of co-operation, in humanizing industrial conditions, in ending finally all contentions between the two factors, labour and capital, in solving the problem of the distribution of wealth in such a manner as will ensure a continuous steady growth of trade year after year, and therefore the constant and regular employment of every man and woman in the particular occupation for which each one is best fitted. No Government since the factory system first

started has ever had a better opportunity nor fewer obstacles to encounter in solving our industrial problems than the present one. Can the Coalition members and their successors rise to the occasion? And will they?

"This will not affect your business except in the matter of profits. The Government will take charge of everything in excess of a certain percentage." Whenever the government regulates the return on money and work expended, profit becomes a clandestine activity and honest men lose.
7/12/89 WGS

The marriage of produc-
tion and finance to form
the 666 one world is not
between equal partners.

The Rothschilds can build
up anyone to produce even
if the slaves think that

they own the sources of
production.

The traders have gotten
out of their places and
will be given a Rothschild
lesson. The traders are
naive to think that they
can out wit the Rothschilds.

7/13/89 WGH

CHAPTER XVII

(*February 1st*, 1917)

PSYCHOLOGY OF THE WORKSHOP

WHEN the late Frederick Taylor of Philadelphia was deep in his study of workshop efficiency, he occasionally favoured me with the results of his labours. He mentioned the tons of metal he had used in ascertaining the conditions under which the highest speed efficiency was obtainable with various machines, lathes, drilling, slotting and screw cutting machines, etc. He worked out the speed efficiency for every form and variety of workshop tool and machine, including labour itself. From the purely mechanical standpoint Taylor's work is the last word in efficiency. In one of our numerous conversations, I asked if he had given any consideration to the psychology of the labour factor. He admitted that up to that time—sixteen years

ago—he had not. He acknowledged that great variations in the quality of labour existed, but his endeavour was to eliminate as far as possible the personal equation.

Taylor's work was entirely confined to the material side. Increased output, reduced costs, greater profits—these were the sole objective results he aimed at—and attained—to an extraordinarily high degree. It is a curious commentary on the human mind to witness how often in our pursuit of certain objects the means for securing them are regarded as the objects themselves. Workshop efficiency should be merely a means for providing us with those material things necessary to life, its development and enjoyment, with the least expenditure of energy. But supposing this pursuit ends in debasing the human factors into mere pieces of mechanism? Supposing our mechanical efficiency turns out to be a Frankenstein? Supposing efficiency ends in crushing the very object for whose advantage it is created?

One of the many salutary lessons taught

by the war is the need for improving the conditions of labour. The introduction of female labour into thousands of workshops, and the acquaintance which many of our educated classes have made with factory conditions, have led to a demand for "humanizing" labour conditions. Probably the most debasing feature of these conditions is the terrible monotony of repetition work. A man who performs the same operation, the making of the same article day after day, week after week, and month after month, becomes a mere automaton. Not only does it affect him during the hours of labour, but eventually he becomes machine-like in all his movements, with disastrous results to his mental and moral stamina.

The great labour problem is how to make workshop life attractive, interesting, ennobling. *The solution of this problem will not only prove of great moral and physical benefit, but economically advantageous.* The operator who is interested in his work, will do more and better work than the one who is "fed up" with the

monotony of his daily task. *Moral is as important a factor in the workship as in the army.* The knowledge that their product is to be one of the deciding factors in winning the war has braced thousands of machinists to do their level best, and to-day many engineering establishments are turning out better and more work per man than at any period in their history.

I am now speaking from experience. I have several men employed on munition work, whose weekly output is one-third more than the *maximum* quantity which the makers of the machines believed it was possible to produce! Employees who, prior to the war, grumbled when requested to work overtime, now willingly put in an average of twelve hours a day. And this is not entirely due to the extra wages paid them. It is the same spirit that caused hundreds of thousands of all classes to rush to their nearest recruiting station as soon as war was declared. Is it not possible to cultivate this spirit and organize it for the production of the munitions of life—when peace is declared? Such a

result would absolutely revolutionize industrial life.

One method for rendering the operator's task less monotonous is to explain fully to him the functions fulfilled by each particular article he makes. In my young days of apprenticeship I remember how dull and stupid certain repetition work appeared. To make the first few screws was interesting, but after several days the same task became monotonous. One day my father took me to Strood, and we boarded the *Great Eastern* steamship—then the greatest and most famous vessel afloat. I was there shown the purpose of the screws I was making, which were to be used on the vessel. From that time the work assumed a totally different aspect. The thought that my product was of some importance in connexion with the greatest ocean Leviathan, dispersed all feelings of monotony, and I felt myself of really some importance in the industrial world. During thirty years of business experience I have found that this practice of explaining the use of the articles the

machinist is engaged in making greatly adds to his interest.

During a recent visit to the Whitehead aircraft works at Richmond, Surrey, Mr. Whitehead told me that he made it a rule to call his workpeople together two or three times a week during working hours, and address them on the nature and importance of their work. When flying tests and experiments are carried out, occasionally he invites the entire works to visit them. "By these and similar means the interest of every employee is maintained at the highest level," he added. "Every one works with the same diligence and zeal as if the business belonged to him or her."

The key to success will be found in satisfying the natural longing and hope of every one to be of some recognized value in the world. The great incentive which causes men joyfully to spend days and nights in working out inventions, in making discoveries, in writing books, is not the mere hope of pecuniary gain, but the determination to obtain recognition among their

fellows as having done "their bit" in life. Indeed, the way to lighten toil and humanize labour conditions is to adopt such means as will engender the spirit of a victorious army, where every man shares the glory of success. There is the excellent story of the organ-blower who, when the organist was bowing profusely in acknowledgment of the plaudits of his audience after a famous recital, insisted on sharing the honours by standing beside the performer and making his bows. For had he not also contributed his share to the performance?

Distinctions for Industry

The entire industrial spirit would be changed completely if every factory employee from the humblest labourer to the manager was made to feel that each is an important and necessary link in the chain of production. Accompanying this should be a system of badging for good conduct and special achievement. The Ministry of Munitions did a wise thing when it adopted the badge system. It gave a

tone and standing to those so badged which has done not a little in stimulating output.

Soon after the beginning of the war, when my works received its first contract for munitions, nothing was said at first to the operators as to their being employed on munition work. There was a tendency on the part of several to dawdle. As soon as it was explained that rapidity of output meant the saving of men's lives at the front, all signs of malingering disappeared. There are innumerable opportunities for the display of heroism in the workshop as well as on the field of battle. Could not the Government extend the distinguished service orders to include every department of life, and give munition workers an equal chance with the soldier for gaining the equivalent of the V.C. or the D.C.M.?

Another method for alleviating the natural feeling of monotony is to transfer operators from time to time by putting them on different operations. My experience proves that the mechanic who is generally skilled—that is, skilled in several operations—is usually better in each than

the mere specialist. Change of occupation periodically is beneficial to both the employer and employee. In large works where gymnasia, cricket grounds, lawn tennis courts, and even libraries are provided, occasional breaks in the working hours to enable employees to enjoy a few minutes' recreation, will be found of immense value.

The excessive use of stimulants, spirits, beer, and tobacco amongst the working classes may often be traced to the desire to get rid of the monotony of existence. Temperance advocates, as a rule, fail to get to the root of the evils of intemperance. They blame the people who manufacture the intoxicants and sell them, as well as the Government that permits the traffic. But they do not seem to realize that the existence of the evil arises from *the persistence of the demand,* for which some good reason exists. To get rid of drunkenness we must first ascertain its cause—by studying the motives and conditions of those who insist upon getting drunk. Whilst intemperance may often be due to mere habit,

or hereditary desires, I believe a vast amount, especially among the working classes, is directly due to the desire to escape for a time from the dreariness and the monotony of their lives. *And the surest cure is to find some healthy means of making their lives bright and interesting.*

Two modern inventions provide a method for assisting in this task. The enormous success which has attended the cinema and the gramophone prove the public appreciation of the need for these diversions. If the Ministry of Munitions could have employed 200 or 300 lecturers provided with films giving views from the battle-fields, taken on all the various fronts, etc., to visit the various engineering works, and exhibit them to the munition workers —accompanied by appropriate descriptions of what our men were doing and the part played by munitions—it would have done much to increase output. The psychological effect of music is known too well to require more than a passing reference. Gramophones in factories might afford as powerful a stimulus to labour as a military

brass band gives to an army marching to battle.

The greatest factor in maintaining the moral of factories, however, will be found in the personal relations existing between the masters and their men, between the managers and foremen and those under them. An American friend, employing over 700 people, requires but one overseer. The relations of himself and his manager to his people are of such a nature that his employees never require watching. They are so satisfied with their treatment that their one fear is lest they should get discharged. Naturally there are scores of people, like the Huns, who are insensible to kind treatment—to whom a kick or an oath is more effective than advice. Such people are either half-human or seldom worth employing at any price. But to the average Briton, a kind word is everything, whilst an unjust act or a harsh word stings like a scorpion, and seriously reduces his efficiency as a producer. I have often marvelled at the utter stupidity of many managers who imagine kindness

or sympathy displayed to a workman to be a sign of weakness, and tends to spoil him. I have known workmen rendered incapable of work for several days by some censure given them in brutal terms. I have always regarded such conduct as stupid as a man venting his rage upon a machine by striking it with a sledge hammer! The human being is the most delicate, the most sensitive machine, and needs the most intelligent treatment.

The psychology of the factory is a comparatively new study, but it presents a most fruitful field for experiment and investigation. Remarkable as the results of recent mechanical efficiency methods have proved, far greater economic results remain to be achieved in the domain of psychology—in knowing the conditions under which the human factor is capable of the highest achievements. *I venture to say that the highest degree of efficiency will be found where labour conditions are the most healthful, and the welfare and happiness of the workers is the chief consideration.* Some day the world's statesmen will awaken to

the fact that any economic system which breeds poverty and misery among the masses is neither moral nor economic, and that the surest plan for making a nation rich and prosperous, is to ensure first the well-being of the working classes. The true science of economics must harmonize with the laws of ethics.

As a munitions manufacturer, Kitson is too close to the problem in terms of being part of the problem to offer much more than the views of a highly enlightened participant in destruction.

 WJH

7/12/89

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